
MOROCCO: CONSTRAINTS AND OPPORTUNITIES IN THE SME SECTOR

FINAL REPORT

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LIST OF ABBREVIATIONS and ACRONYMS

AMIT	Association Marocaine des Industries Textiles
BCM	Banque Commerciale du Maroc
BCP	Banque Crédit Populaire
BF	Belgian Francs
BM	Banque al Maghrib
BMCE	Banque Marocaine du Commerce Extérieur
BHCI	Banque Marocaine pour le Commerce et l'Industrie
BNDE	Banque Nationale pour le Développement Economique
CDG	Caisse de Depot et Gestion
CduM	Crédit du Maroc
CGEM	Confederation Générale Economique du Maroc
CIH	Crédit Immobilier et Hotelier
CMTR	Crédit Medium-term Rediscountable Loans
CN	Certificat Negatif
CNCA	Caisse Nationale de Crédit Agricole
CPA	Certified Public Accountant
CRED	Center for Research in Demographics
DH	Dirhams (Moroccan currency)
D.S.V.	Declaration de Souscription et de Versement
ECU	European Currency Units
EEC	European Economic Community
FICOPAM	National Federation of Agro-Industry Producers
FNBTP	National Federation of Building and Public Works Constructors
FRG	Federal Republic of Germany
GDP	Gross Domestic Product
GNP	Gross National Product
GOM	Government of Morocco
IMME	Metal, Mechanical and Electrical Industries
ISCAE	Institut Supérieur de Commerce et d'Administration des Entreprises
MCI	Ministry of Commerce and Industry
MTPFPFC	Ministry of Public Works - Vocational Training Division
ODI	Office pour le Développement Industriel
S.A.	Société Anonyme (a corporation)
S.A.R.L.	Société à Responsabilité Limitée (limited partnership)
SGMB	Société Générale Marocaine de Banque
SI	Corporate Income Tax
SME	Small and Medium-scale Enterprise
SMI	Small and Medium-scale Industry
TA	Technical Assistance
T.M.E.	Travailleurs Marocains à l'Etranger
UNDP	United Nations Development Program

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MOROCCO: CONSTRAINTS AND OPPORTUNITIES IN THE SME SECTOR

EXECUTIVE SUMMARY

This study aims to examine the constraints and opportunities to the creation and expansion of small and medium enterprises in Morocco. The study was jointly funded by USAID/Morocco and the Bureau for Private Enterprise, under the Private Enterprise Support project (PEDS II). A team of four consultants from Ernst & Young devoted six weeks of research in Morocco to analyze the opportunities and obstacles to SME development.

The Moroccan Government has put into place a number of programs to assist small and medium-size businesses, such as Jeune Promoteurs and Loi 16, as well as incentives under the investment codes. In addition, since 1984 the Government has made efforts to simplify the legal and administrative procedures for investment approval. This effort has been rekindled by the King, who issued a "Lettre Royale" in June 1989, expressing concern with the long investment approval process. The Government remains concerned that the small and medium enterprise sector is not meeting its potential. A greater rate of SME creation could absorb some of Morocco's unemployed and could offer opportunities for an increasingly educated population.

The study team's findings are based on a review of documentation pertaining to business establishment procedures and existing loan programs for small and medium businesses, discussions with government agencies, bankers, and business associations, and a limited survey of SMEs and entrepreneurs. The team's recommendations are aimed at reducing or eliminating the constraints to SME development in Morocco. The team's work centered on three principal areas:

- (a) Constraints and obstacles to establishing an SME;
- (b) Constraints in the financial environment; and
- (c) Agencies and institutions which serve the SME sector.

Constraints and Obstacles to Establishing an SME

While each form of enterprise has some administrative procedures unique to it, there are eleven steps which all entrepreneurs must take when establishing a business. They are as follows:

- **Obtain a "Certificat Negatif."** The Central Registrar of Commerce in Casablanca approves the company name.
- **Establish a Legal Address.** Tax authority and commercial law require that a company have a legal domicile address.

- **Apply for the Patente Tax.** The SME applies to the local tax office for the Patente tax. This is the "point of no return" when establishing a business.
- **Register Official Documents.** The enterprise registers all written documents used to create the SME with the local "Division de l'Enregistrement" of the Ministry of Finance.
- **Legal Publication.** Major parts of the Articles of Incorporation must be published in the Official Bulletin and one commercial newspaper.
- **File with the Registre du Commerce.** The enterprise must register with the Trade Registry; to do so papers must be presented to the "Tribunal de Premier Instance."
- **Obtain Authorization to Import, if needed.** Permission to import is granted by the Ministry of Industry and Commerce. The enterprise is issued an Import Number and an Import Permit.
- **Notification Tax Authorities of Legal Existence.** The enterprise must register with the "Service des Impot Directs" and with the "Service des Impots Indirect and des Taxes Assimiles."
- **Register with the Social Security Service (CNSS).** The application must be submitted directly to CNSS.
- **Have the General Ledger Books Initialed.** Businesses must have a hand-written general ledger book and an inventory book; both must have numbered pages stamped by the Tribunal.
- **Have the Employee Pay Record Book Initialed.** The employee pay record must be initialed by the "Inspection du Travail."

For the sample of firms surveyed by the consultants, the average time to complete the process of business registration was 6.6 months.

There are five phases of developing an enterprise in Morocco. Each has its own set of constraints and administrative obstacles. The phases are outlined below:

Phase I: Development of an Entrepreneurial Idea. The entrepreneur carries-out the market research necessary to justify implementation of a business idea.

Phase II: Administrative and Legal Procedures. The entrepreneur takes administrative and legal steps to formally create an enterprise.

Phase III: Financing the Enterprise. The entrepreneur prepares and submits a loan request to a financial institution. This step can be eliminated if the entrepreneur has some other source of financial backing.

Phase IV: Business Start-Up. This phase begins when the enterprise becomes operational and initiates the production of goods and services; it also establishes the rudiments of a management system.

Phase V: Consolidation, Expansion or Contraction. In this phase, after a certain amount of operation time the entrepreneur assesses the market progress of the firm and adjusts its size and operations accordingly.

In 1988, 9,956 businesses actually obtained a "Certificat Negatif," one of the main steps in Phase II. Of those, approximately 2,200 registered with the "Registre du Commerce" for a business licence. The drop-out rate was therefore 4.5 to 1. This high drop-out rate suggests that many abandoned plans to establish a business, at least in part, because of administrative barriers. These barriers include the lengthy, expensive registration process; high tax liabilities; and a cumbersome, slow investment incentive scheme.

Constraints in the Financial Environment

The demand for credit in Morocco far exceeds supply. As a result, banks can be very selective in granting credit. They usually demand asset guarantees which are a multiple of the amount requested. Those entrepreneurs who are granted credit generally are "known" to their bank.

In most cases, entrepreneurs surveyed did not understand the workings of the banks: the lengthy application and approval process and the frequent denial of credit.

Investment bank subsidiaries of the commercial banks have limited capital bases from which to invest in new ventures and they are not oriented toward the SME sector. The recently initiated European Investment Bank Capital risk program may prove to be one useful way to provide seed capital as it makes loans against the entrepreneurs' non-equity contributions.

Agencies and Institutions which Support the SME Sector

Technical assistance is not widely available to Moroccan entrepreneurs. The few government programs that exist are centralized in Rabat and Casablanca, and cannot respond to the potential needs of the SME sector.

The "Formation Professionnelle and Formation des Cadres" divisions have launched ambitious programs to assist vocational school graduates in starting new businesses; the Office of Industrial Development (ODI) offers assistance to new projects on a fee for service basis but it does not enjoy a credible reputation among small and medium entrepreneurs. The Germans furnish technical advice to Moroccans seeking West German joint ventures or technology, and the French, working through the BNDE, offer to underwrite the costs of feasibility studies.

Chambers of Commerce and Industry are only recently breaking free from government funding and direction. The largest Chamber, in Casablanca, is being reorganized in order to improve information and documentation services to members; to furnish training and assistance to SME; and to increase promotion activities for domestic business and international trade. Reform in the Casablanca Chamber may serve as a pilot for other chambers.

Despite a wide number of professional and industrial sector associations, not all are active. Nonetheless, those in the textile sector (AMIT), construction (FNBTP), and mechanical, metals, and electrical industry (IMME) serve sectors with favorable growth prospects and are interested in further developing their outreach services, particularly in the SME sector.

Solid business school training is available only from ISCAE; the universities only offer modest business/management options within their economics faculties. In a promising development, public sector professional and vocational training institutes have recently been required to give modules on accounting and managing one's own business.

Conclusions and Recommendations

The team recommends a three-pronged strategy to small and medium enterprise development: (i) policy reform directed to regulatory, administrative, and legal reforms; (ii) small business support services; and (iii) expanded finance. The possible features of these three components are as follows:

Policy Reform

Require only a unitary application to the Registre du Commerce to secure a business trade name, to secure a business identification number, which would then be automatically transmitted to tax and CNSS authorities for registration, and to file papers of incorporation. Receipt of a business number would signify the legal existence of the enterprise.

Encourage entrepreneurs to review legal entity options before starting a corporation.

Revise investment codes to provide for greater transparency of decision making process, simplification of application procedures, and greater automaticity in granting benefits.

Modernize commercial, judicial and labor code provisions relating to such matters as incorporation, bankruptcy, and requirements for hiring and firing.

Disengage the government from the workings of the Chambers of Commerce and business and bankers' associations.

SME Support Services

Strengthen the capacity of business support organizations to provide member services, such as training, technical and marketing seminars, and assistance for new business start-ups. It is in the interest of these organizations to help new businesses establish and prosper because doing so would expand their membership and dues.

Finance for SMEs

Modify and expand of the Jeune Promoteur program to include older entrepreneurs.

Create an equity-credit scheme akin to that of the European Investment Bank for entrepreneurs seeking joint ventures with U.S. or other country firms.

Establish a guarantee fund with industry associations to provide collective guarantees to banks against the risk of default by SME borrowers who are members of the association.

INTRODUCTION

This study was conducted at the request of USAID/Morocco and the Government of Morocco. It was jointly funded by the USAID Mission and the Bureau for Private Enterprise through the Private Enterprise Development Support Project (PEDS II). The study team consisted of four consultants from Ernst & Young:

Criss Juliard	Team Leader
Mark S. Weber	Financial Specialist
Housni El Ghazi	Small Enterprise Specialist
Lahoussine Assemblali	Management Consultant and Accounting Specialist

The purpose of the study was to examine the constraints which impinge on the creation and expansion of small and medium scale enterprises (SMEs) in Morocco. During the course of the study, the team interviewed key institutions and individuals that play role in the process of enterprise creation. These include:

- **The Government of Morocco (GOM):** The Government establishes the administrative procedures which permit SMEs to operate. In setting and implementing policies, it helps to create the environment in which enterprises function; some policies specifically aim to facilitate SME development. The GOM also encourages investments in certain economic areas by offering tax advantages through the Investment Codes.
- **The Entrepreneurs:** Entrepreneurs are part of a potential pool of people who invest their time and effort in business ventures. Entrepreneurs decide whether or not to establish a business based on the perceived risks and rewards. The ease by which they can enter and exit an enterprise is a critical factor. During the diagnostic part of the study, a survey was conducted to evaluate the real and perceived constraints to the creation and expansion of small and medium enterprises.
- **The Enterprises:** The process of creating a successful enterprise is a central theme of the study. Enterprises undergo five basic phases of development:
 - **Phase I** is the creative idea and data gathering phase. It is closely tied to the resourcefulness of the entrepreneur.
 - **Phase II** is the administrative and legal registration phase. It involves fulfilling the administrative requirements of the GOM.

- Phase III, in which the financing of the enterprise is sought, involves banks and other financial sector institutions.
 - Phase IV is the start-up phase of the enterprise. It begins when the enterprise initiates the production of goods and services. It is during this phase that management systems are put into place in the enterprise.
 - Phase V involves the consolidation and expansion (or contraction) of the firm. During this phase, the enterprise tries to adapt to market demands, and management structures evolve to meet long-term problems.
- **Banks:** At present, banks are the main source of capital in the Moroccan financial system. They are the only institutions capable of converting savings into medium and long-term loans to finance investment. It is estimated that only about 40% of savings pass through the formal banking system.
 - **The Chambers of Commerce:** The Chambers are currently an arm of the government, but potentially could be an intermediary between the government, businesses and the market. Now they intervene primarily in Phases IV and V of enterprise development, but in the future, they could also participate and be involved in Phases I-III.
 - **The Ministry of Public Works, Department of Vocational Training and Staff Training:** This Ministry has the mandate to not only provide vocational training nation-wide, but also to develop a curriculum to teach the basics of business ownership.
 - **The Private Sector:** The Moroccan private sector is a nebulous amalgamation of informal and formal enterprises, large and small. It has been dominated in the past by monopolies in certain market sectors. The private sector is evolving toward greater autonomy and could be better structured through the Chambers of Commerce, professional associations, regional organizations and the confederations, if provided sufficient incentive and impetus.

This study examines the roles and the modes of interaction of these and other actors within the SME sector is the focus of this study. The team's methodology for conducting the study involved five steps. The first step was to examine the laws and regulations governing the private sector. Secondly, the team examined the process used by the successful (and unsuccessful)

entrepreneurs to establish a business and function within the Moroccan legal and administrative framework. A survey was conducted among 60 small and medium-scale enterprises to analyze the constraints and obstacles faced by business in each of the five phases described above. Thirdly, the team examined the gaps which exist in the way regulations are written and the way they are practiced. Fourthly, the team examined significant economic, social and business trends and their potential impact on enterprises established within the next ten years. Lastly, the study team formulated recommendations to address the constraints and obstacles to new enterprise development, in particular, those constraints which touch on the five phases of enterprise development.

The team's analysis points to an eventual resolution or at least an attenuation of the current constraints to new enterprise development. There is a strong political will to reduce the administrative delays and legal requirements to the establishment and expansion of enterprises; if such will is translated into concrete actions, the current constraints to new enterprise development will be significantly reduced. However, the types of constraints entrepreneurs will face in the future are likely to be of a different nature. Evolving trends, such as better educated entrepreneurs and more technologically competitive SMEs, require reforms and interventions that are more attuned to future problems rather than past constraints. In sum, the challenge is to formulate reforms and activities which encourage the loosening of government control in the SME sector, while creating an environment in which SMEs can effectively respond to the demands of the market.

CHAPTER I

OVERVIEW OF THE ENVIRONMENT

1.1 The Role of the Public Sector in SME Development

The importance of small and medium enterprises (SMEs) in any country's economic development is well-established. In Morocco, the SME sector has been a focus of government activity for the past 20 years. Realizing that Morocco needed increased industrial production and employment, the GOM cited SME sector expansion as its second priority in the 1988-1992 Five Year Plan, following rural development.

The Government of Morocco operates on the basis of planned economic growth in order to avoid inefficient allocation of resources. It intervenes in the economy to facilitate growth in accordance with a predetermined plan. Since independence, it has adopted policies to regulate the performance of the private sector, including SMEs. For many years, GOM policies oriented economic development toward production for import substitution; as the need to generate foreign exchange was recognized, the emphasis was shifted and production for export was encouraged.

By nature, SMEs are often economically duplicative and therefore perhaps wasteful in the sense of planned growth. In addition, SMEs thrives on and fosters competition. To survive, they must be fluid and at times secretive. The SME sector is not easily amenable to government intervention.

Over time, the Government of Morocco has increased its presence at each of the five phases of SME growth. The net effect has been to suffocate the sector. The administrative and legal requirements to new enterprise development were intended to facilitate and direct growth; in reality, they have inhibited the creation of new enterprises and the expansion of existing ones. In fact, the barriers created through administrative and legal requirements have given SMEs an incentive to remain informal, and hence, have discouraged SME growth.

In the late 1970s and early 1980s, the Administration realized that the rate of SME creation was not increasing fast enough. It therefore put into place financing programs and investment code incentives under joint GOM and local bank implementation; international donors supported the development of some of these programs, mostly notably, the World Bank through the Industrial Promotion Programs. In addition, in 1984, the Moroccan administration initiated a campaign to simplify the legal and bureaucratic process for investment approval. The goal was to reduce the time and the obstacles associated with getting a business started. Emphasis was placed on reducing the number of

Ministries and public institutions which played a part in the license and permit approval process.

A popular concept for promoting investment was to establish a one-stop window ("guichet unique") for investors. This entails the use of a single institution to interact with the investor. The idea was studied and debated at length within the administration. However, by 1986, the plan for creating a one-stop window was abandoned because none of the Ministries (Fishing and Maritime, Industry and Commerce, Tourism, Mines) were willing to relinquish their prerogatives in the approval of investments in their sector. With the failure of this initiative, the effort shifted toward simplifying administrative procedures.

In a "Lettre Royale" issued on June 14, 1989, the King noted his frustration with the long investment approval process; he pronounced that if action on a proposal were not forthcoming within two months of its submittal, the project would be considered approved. Action on this decision has been accelerated by a follow-up letter from the Prime Minister; the letter directed all ministries to review their administrative and approval processes and to submit recommendations for streamlining the process. Copies of the letters are included in Annex 7. The Ministry of Economic Affairs is responsible for coordinating recommendations and presenting final proposals to the Parliament.

It would appear that, at the top levels of government, there is the will to disengage the government from the control of private sector activities, including the functioning of SMEs. There is a greater willingness to open the Moroccan economy to market forces -- a trend which could be very significant from the perspective of the SME sector.

1.2 Urbanization and New Job Creation

Last year Morocco created approximately 139,200 new jobs. This represents a net increase of 5,500 jobs over the normal increase in the active/working population of about 133,700. Given the high level of unemployment, however, the present rate of job creation will not suffice. (More detailed employment figures are presented in Annex 1).

It is important to examine population growth trends, for they are the basis upon which some of our recommendations are formulated. Annex 1.D presents the projected urbanization of the Moroccan population, as calculated by the Center for Research in Demographics (CRED). With the recent economic boom, more job opportunities have opened up -- although not enough. Increased wage-earning opportunity spurred urban growth in 1988; this is expected to continue into the 1990s. Forecasts project that the growth in the number of urban job seekers will level off by 1995.

1.3 The Entrepreneurial Pool

As a starting point for examining new enterprise development, it is important to determine the size of the pool of potential entrepreneurs. In Chart 1.3 on the following page, the concept of the entrepreneurial pool is developed.

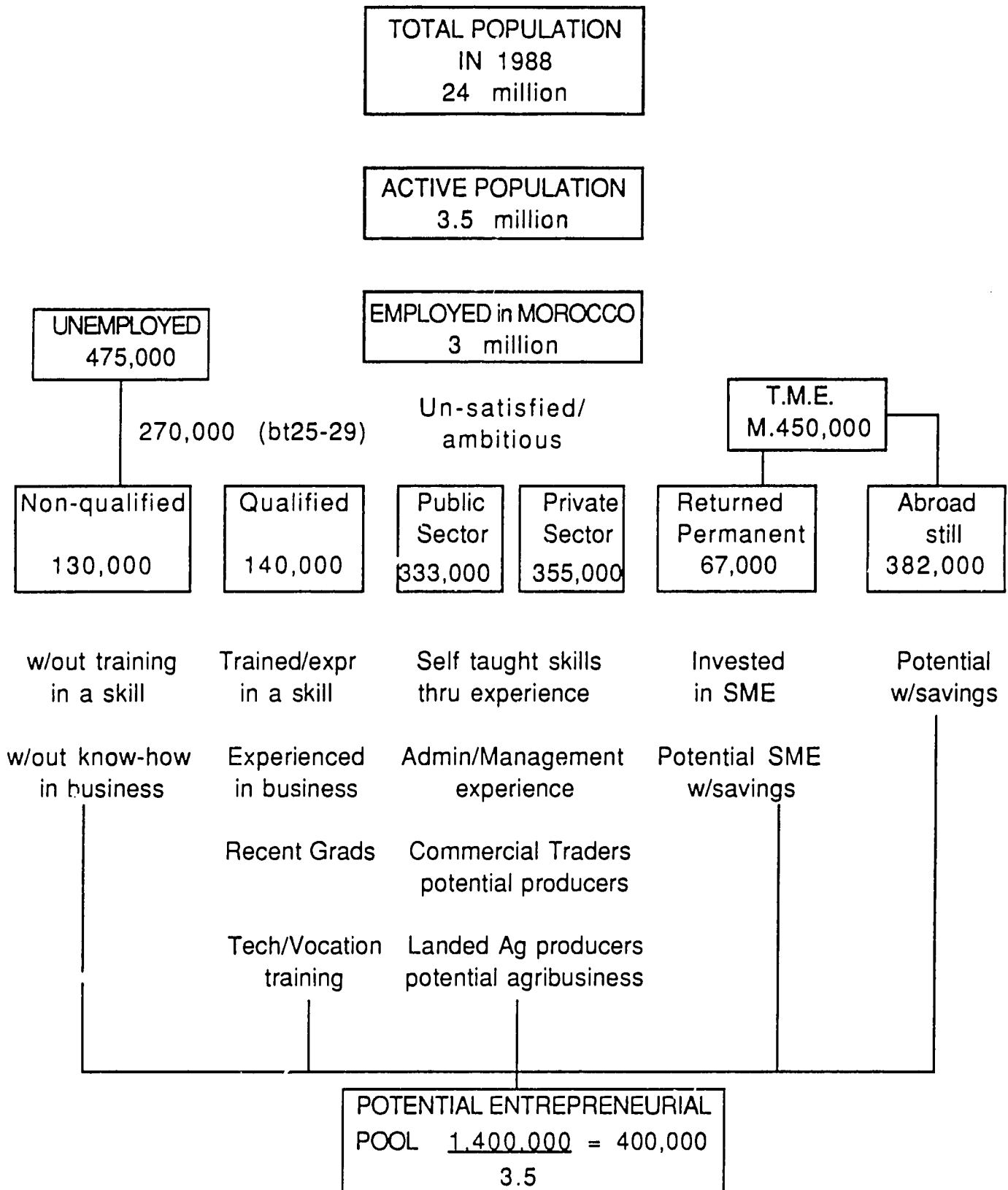
The base of the pool is the total population of Morocco, which was approximately 24 million in 1988. From this number, we have subtracted the number of people who are "active" (i.e., working or looking for work); this was approximately 3.5 million people in 1988. In this active population, there were an estimated 650,000 Moroccans living overseas, of which 450,000 were working.

The active population in Morocco includes both employed and unemployed people. In 1988, there were approximately 475,000 unemployed individuals. The unemployed who are potential entrepreneurs are probably limited to those between the ages of 25 and 59. There are estimated to be 270,000 people in this group. Among the unemployed, there are both qualified and unqualified workers, based on training or acquired know-how from experience in business. Also among the unemployed are those who have received vocational training, and recent graduates from all levels of formal education, including the universities. For these categories of the unemployed, we must use a proxy; there are those who have completed grade school, or roughly 140,000 people. The other 130,000 individuals have not had as much education, but in the past, many entrepreneurs have come from this group as well.

Of the over 3 million people employed in 1988, 333,000 work in the public sector and 255,000 work in the industrial sector. There is an assumed level of skills and/or experience which has been acquired through formal training or on-the-job training. While skills are important, it is more important to know whether workers are satisfied with their present job or position. Among this group there are those who are not satisfied, and who if encouraged, would change their manner of earning a living. Among the people employed in public sector or industrial jobs, the number who are dissatisfied is a matter of pure conjecture.

Added to the pool is an important group of trained people: an estimated 650,000 Moroccans who have been working abroad (Travailleurs Marocains à l'Etranger, T.M.E.). Many will eventually return to their homeland and/or invest in Morocco; there are already perhaps 15% of the group which have done so. They have been replaced by others who have temporarily emigrated.

ANALYSIS OF THE ENTREPRENEURIAL POOL



According to the Minister of Labor, few T.M.E.s want to return to Morocco and work for another person. They usually plan to establish their own business with the training that they have received overseas (unless they return to retire). T.M.E. returnees have often accumulated significant savings from their wages earned abroad and many have invested their savings in the GOM-T.M.E. investment schemes. Therefore, a T.M.E. potentially has the money and the will to invest in a new enterprise.

The total number of individuals in the entrepreneurial pool is approximately 1.4 million. One can reasonably assume that at least 1 out every 3.5 members of this group could be encouraged to become an entrepreneur. This is 400,000 people per year or about 8.75% of the active population.

1.4 Constraints: Domestic Market and Income Factors

The creation of SMEs and the sustainability of these enterprises are determined in great part by the ability of the market to purchase their products and services. The Moroccan economy is growing at an appreciable rate. The 1988 Gross Domestic Product in Morocco was approximately \$23 billion. This represented a nominal growth rate of over 10% from 1987; inflation was less than 4%. The economy has been in a phase of robust expansion since 1988, with good harvests the past two years.

The domestic market in Morocco is relatively large compared to the internal markets of many other developing economies. Nonetheless, according to Moroccan entrepreneurs and bankers, structural adjustment is likely to have a major impact on the level of competition in the domestic market; as import laws and regulations are liberalized, Moroccan enterprises will face greater competition at home. Structural adjustment measures are also likely to have an adverse effect on Moroccan households' already limited disposable income. Increased competition in the domestic market and decreased disposable income may pose constraints to the development of new products and services by Moroccan SMEs.

In assessing the market potential for goods and services, economic expansion must be viewed in light of population trends. The total population was estimated at 24 million in 1988; 46% or 11.3 million people live in urban areas, and 52% or 12.4 million people are under age 20. Assuming that household units average six members, domestic market potential for goods and services in Morocco is limited to an estimated 3 million households, which have an average of one working member each.

In terms of purchasing power, GDP per capita is less than \$1,000, and the minimum wage rate is \$.60 per hour, or \$30 per week in

industry and commerce. Salaries for engineers, administrators and the liberal professions are quoted at \$1,250 a month. Bearing in mind that one worker supports four to five people, this salary poses a constraint to Moroccans' purchasing power.

Produce market owners indicate that typical urban customers divide weekly family earnings as follows: 50% for food expenses (including other household products), 25% for family lodging, and 25% for all other expenses: transportation, clothes, school, entertainment, etc. Clearly, there are very real limits to the amount of disposable income available for local products.

Although the economy has been expanding, various programs of national interest drain a large portion of discretionary income. This reduces market potential for goods and services provided by new SMEs. The force of television, particularly shows which emanate from Europe, creates demand for more expensive goods, but these are not easily marketed in Morocco if they are locally produced. By default, sectors which favor services and export production are more attractive for SMEs.

1.5 The Unstructured Nature of the SME Sector

In Morocco as elsewhere, small and medium enterprises operate with a limited institutional and management framework (See Annex 9.D). Professional staffing is thin at the SME level, forcing the manager to wear many hats. The owner of the firm is often responsible for product development, marketing, customer relations, personnel management, and overall administration of the firm. Forty-five percent of SME owners surveyed admitted they were deficient in basic management skills; eighty percent of the enterprises had an administrative and management system that was inadequate to conduct business successfully.

In addition to difficulties within the enterprise, the SME sector as a whole is poorly structured. The entrepreneur has neither the resources nor the capacity to effectively lobby government officials. A small business association was created several years ago in order to orient and structure the SME sector. The association no longer functions, however, because it failed to recruit sufficient members; it also lacked strong leadership and internal cohesion.

One of the difficulties in organizing the SME sector is that it is composed of numerous sub-sectors. The most important sub-sectors include food processing, textile production and leather, mechanical and electrical industries, construction materials, wood and furniture. Each of these sub-sectors faces a unique set of opportunities and constraints. The common thread among SMEs is their difficulty in meeting with the quality and delivery requirements of foreign buyers; the only exception might

be the "cut and sew" sub-contracting firms in the textiles sector, where there is often considerable client supervision.

Government efforts to provide direction to the sector via the Office pour le Développement Industriel (ODI) or the Ministry of Commerce and Industry have not been fully successful. The Division for Industry within the Ministry indicated that it is divesting itself from the most profitable enterprises created by ODI; the Division feels it no longer has a role to play in the operation of these businesses.

The traditional SME sector in Morocco is composed of individuals with marginal educational skills. Forty-nine percent of the entrepreneurs surveyed had no formal schooling beyond primary school (Annex 9.D). These entrepreneurs are of the generation which considered continuing on to higher education equal to opting for a white collar job.

New entrepreneurs entering the market place have passed high school or are graduates of vocational schools or universities. Owning an enterprise today appears to have the same measure of respectability as obtaining a government post had a generation ago. Young entrepreneurs' higher level of education may imply a greater demand for and better utilization of up-to-date technologies in the future. To remain competitive in local as well as overseas markets, the Moroccan entrepreneur will have to respond to market demands more quickly than in the past.

The changing demands of the SME market, as well as the improved quality of the entrepreneurial pool, indicate that the sector must increase its internal efficiency and structure. This has important implications for interventions in the SME sector. Not only must new programs and projects address SME's internal problems, but they must also address structural weaknesses of the sector as a whole.

CHAPTER II

CONSTRAINTS AND OBSTACLES TO ESTABLISHING AN SME

2.1 Definitions

For the purpose of this study, an "entrepreneur" is an individual who initiates and takes risks by launching a business activity; the business requires mobilization of resources -- both material as well as emotional. The study focuses on the entrepreneur entering the industrial and the services sectors (in order of priority) because of the relatively high rate of employment generated from new businesses in these sectors.

An "SME" or small or medium scale enterprise is a for-profit business registered with the Ministry of Commerce and Industry, the Ministry of Finance, the Tribunals and local authorities. A new SME may have its origins in the informal sector.

The term "project" is used to describe the enterprise from the time it is conceived through the actual start-up. In Morocco, a project is also referred to as a file or "dossier." As such, the entrepreneurial idea begins to take shape as a business plan, a financial plan or a request for a permit, license or an official authorization.

The government considers the business to be an "investment project" when funds beyond those of the entrepreneur are required. When medium to long-term finance is required, there must be government review and approval before funds are disbursed.

2.1.1 Investment Code Definitions

There are separate investment codes for eight economic sectors in Morocco. There is also a separate definition of what constitutes an SME for each of these economic sectors. Recently, the World Bank suggested that all of the various codes be consolidated into one. This would be beneficial to entrepreneurs in that it would lead to less disputes. The Bank's recommendation is still under consideration by the GOM.

To qualify for investment code advantages, an SME in the industrial sector must meet the following criteria: (a) it must be a legal entity; (b) the initial investment capital must be less than DH 5 million (\$625,000); and (c) investment per employee must not surpass DH 70,000 (\$8,750). To qualify for the investment code and various investment loan programs in the expansion phase of the business, the SME must have less than DH 15 million (\$1.875 million) and no more than 200 employees.

The Investment Codes in other economic sectors have different definitions of what constitutes an SME. These various codes are summarized in Annex 4 by economic sector and in Annex 6 by the various investment loan schemes. Lastly, it is important to note that the Moroccan Government, rather than the private sector, has consistently defined what constitutes an SME.

2.2 Data Collection

In order to collect data on the constraints and obstacles to establishing an SME, the team conducted two separate surveys. The primary survey was administered to 75 businesses; its purpose was to identify the types of constraints entrepreneurs face at each phase of enterprise development. The secondary survey aimed to obtain a better understanding of the entrepreneur's profile and his/her ability to manage the enterprise. The total number of enterprises included in the secondary survey was over 120, from which significant data could be extracted for 100. The data gathered through the surveys enabled the team to identify a number of constraints to creating SMEs. (See Annex 9.B for additional information on the surveys).

2.3 Administrative and Legal Procedures

Start-up procedures for an enterprise are determined in part by the type of legal entity envisaged by the entrepreneur. In Morocco, there are six different legal forms of business. They are:

<u>English Term</u>	<u>French Term</u>
1. Partnership	Société en Non Collectif
2. General partnership	Société en Commandite Simple
3. Limited partnership	Société in Comandite Par Action
4. Sole proprietorship	Entreprise Individuelle
5. Incorporated limited partnership	Société à Responsabilité Limitée
6. Corporation	Société Anonyme (S.A.)

Each legal entity is explained in detail in Annex 5.A. They all have distinct advantages according to the type of activity selected and the composition of the organizing entrepreneurs. Each legal entity also has specific registration procedures and approval requirements. Common to all enterprises, however, are the following eleven steps:

1. **Obtain a "Certificat Negatif."** The Central Registrar of Commerce in Casablanca approves the company name.
2. **Establish a Legal Address.** Tax authority and commercial law requires that a company have a legal domicile address.
3. **Apply for the "Patente" Tax.** The SME applies to the local tax office for the Patente tax. This is the "point of no return" when establishing a business.
4. **Register Official Documents.** The enterprise registers all written documents used to create the SME with the local "Division de l'Enregistrement" of the Ministry of Finance.
5. **Legal Publication.** Major parts of the Articles of Incorporation must be published in the Official Journal and one commercial paper.
6. **File With the "Registre du Commerce."** The enterprise must register with the Trade Registry; to do so papers must be presented to the "Tribunal de Premier Instance".
7. **Obtain Authorization to Import, if needed.** Permission to import is granted by the Ministry of Industry and Commerce. The enterprise is issued an Import Number and an Import Permit.
8. **Notify Tax Authorities of Legal Existence.** The enterprise must register with the local "Service des Impots Direct" and with the "Service des Impots Indirect et des Taxes Assimiles".
9. **Register with the Social Security Service (CNSS).** An application must be submitted directly to CNSS.
10. **Have the General Ledger Books Initialed.** Businesses must have a hand-written general ledger book and an inventory book; both must have numbered pages stamped by the Tribunal.
11. **Have the Employee Pay Record Book Initialed.** The employee pay record must be initialed by the "Inspection du Travail".

Additional information on each of these steps is provided in Annex 5.B; the documentation required to complete each step is also listed. The team gathered all of the official forms and applications which must be completed in order to establish and operate an enterprise in Morocco. They are on file with USAID/Morocco's Project Development and Private Enterprise Division (PDPE).

2.3.1 Creating a Corporation

The most commonly selected legal entity for an SME is the corporation (or "société anonyme"). However, it is also the most cumbersome to establish and the least suited for the majority of SMEs in Morocco. To be a corporation, the enterprise must have at least seven shareholders. In addition, the enterprise must hold a General Assembly of shareholders, elections of Board of Directors, and periodic board meetings; the minutes of the meetings are recorded and notarized.

The majority of SMEs in Morocco are small family holdings which rarely expand beyond artisanal exploitations. To form a company, these SMEs designate the husband, a few children, nephews and uncles as shareholders. The formalities required to establish a corporation, both at the outset and after implementation, are seemingly inappropriate for a business enterprise built around the talents and personal involvement of one principal individual.

In the end, the SME entrepreneur is severely constrained by the rigid format of a corporation. It does not lend itself to the rapid decision-making required by managers/directors of small or even medium-sized firms. Articles of incorporation and by-law guidelines are restrictive rather than expansive. Under Moroccan procedures, if a firm wants to branch off into another activity not designated in its articles of incorporation, it must set up a new corporation. In the time required to establish a new corporation, the SME risks losing the opportunity to serve a perceived new market. The entrepreneur must also cope with the problem of managing two legal entities rather than one. In summary, the corporation as a legal entity has several distinct disadvantages relative to a sole proprietorship: (a) it takes more time to establish a corporation; (b) it is more expensive to establish a corporation; and (c) corporations are less flexible legal entities. The primary advantage of creating a corporation is the limited liability shareholders face; the responsibility of each shareholder is limited to the amount of his/her investment.

Prospective entrepreneurs should carefully review the legal options to establishing a business. In addition, USAID may wish to examine in greater detail the appropriateness of various legal entities for SMEs.

2.3.2 Additional Costs to the Entrepreneur

It costs approximately 8,000 to 10,000 DH to formally establish a corporation. If the entrepreneur uses a fiduciary, the additional cost is DH 4,000 to DH 5,000. Once operational, the corporation is more expensive to operate than any other legal form. A certified public accountant must be employed for tax purposes. The tax structure for the corporation is such that a

minimum tax based on the sales of the company is applied regardless of profitability. (See Annex 3 for a description of the corporate tax structure). The cost of running a corporation is at least DH 3,000 to 4,000 more than the cost of operating a sole proprietorship per year.

2.4 The Process of Creating an Enterprise

Regardless of the business activity, the process of creating an enterprise requires a series of steps. These steps are generally, but not necessarily, sequential. Phase I is the creative phase and begins with the entrepreneur's idea for creating a new business. Phase II involves meeting administrative and legal requirements to setting up the new business. Phase III begins when the entrepreneur seeks additional sources of finance. Phase IV is the start-up phase of the business, and finally, Phase V is the consolidation phase where the enterprise either expands or contracts. These phases are grouped into two parts: pre start-up and post start-up of business operations. The process is displayed in the chart on the following page.

To move from Phase I to Phase V successfully, the entrepreneur may face four different types of obstacles:

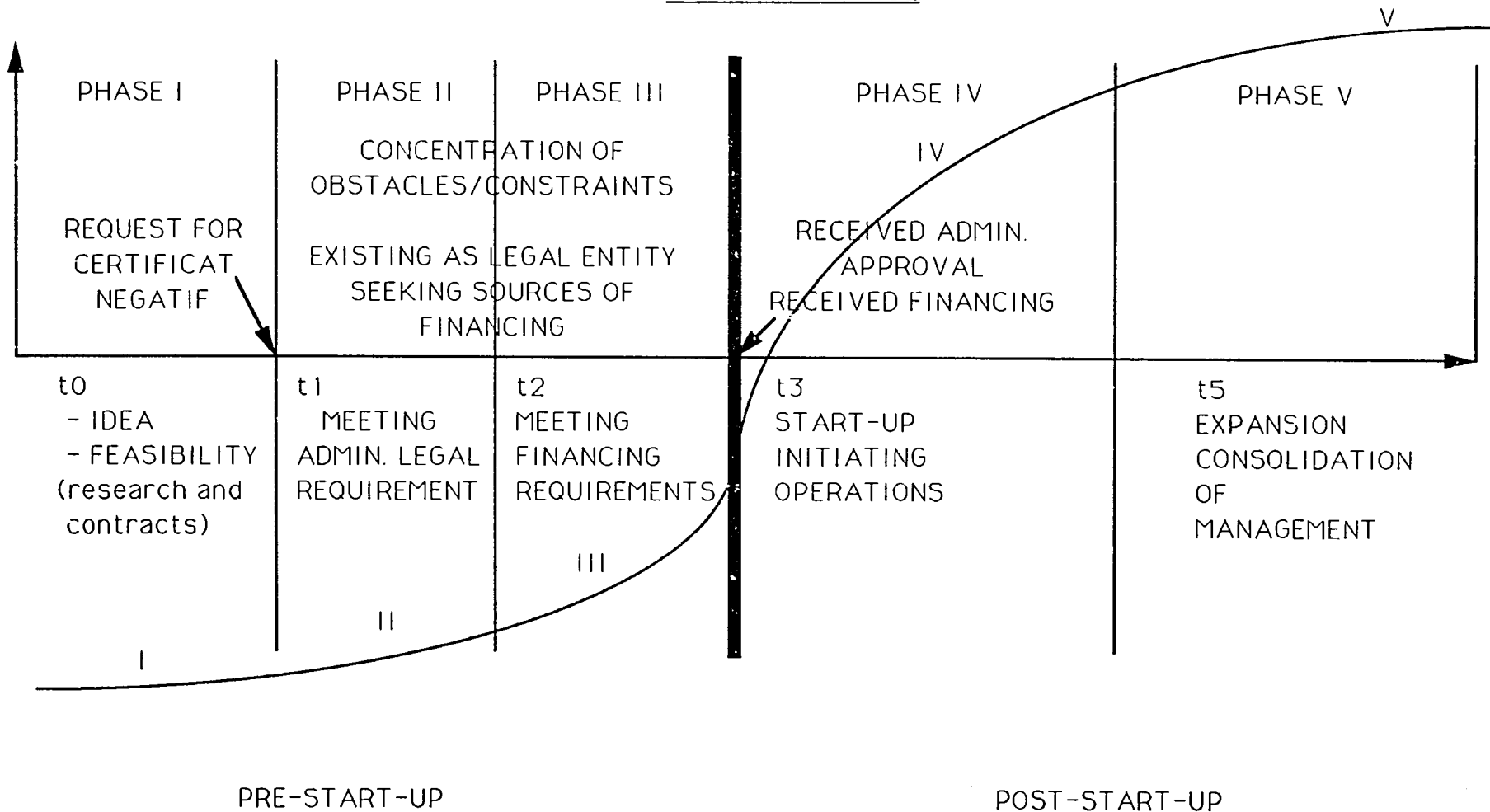
- Obstacles related to the viability of information obtained;
- Obstacles inherent to the type of project being initiated;
- Obstacles of an institutional nature (administrative, financial, regulatory, fiscal); and
- Obstacles related to his/her profile as an entrepreneur.

Each phase has its distinct constraints, obstacles and delays which are determined in part by:

- The validity of information obtained during each phase;
- The business sector of activity selected (depending upon various sectoral Ministry approvals);
- The formal administrative steps required (including local permits for construction);
- The profile of the entrepreneur (including connections and willingness to persevere); and ...
- Luck.

Chart 2.4

PHASES OF THE CREATION
OF AN ENTERPRISE



2.4.1 PHASE I: Developing the Entrepreneurial Idea

In Phase I, the entrepreneur takes an idea for a new business and begins to justify it in market terms. The entrepreneur conducts research and gathers data to either support or modify the idea. The product of the data collection should be a market study and a business plan ... but the Moroccan entrepreneur has often never done one before, nor has he/she received training to do so. Traditionally, there have been few opportunities for formal training in the development of market studies and business plans. An exception is the enterprise creation curriculum now being used by vocational training institutes (see Chapter 4.6).

A study was conducted by a senior Moroccan government official, in collaboration with colleagues from the University, on the process of starting an SME. It is interesting to note that almost 20% of the 500 page study focused on the lack of quality information available from government sources for market studies. Entrepreneurs must obtain basic statistics on prices, types of machinery or equipment required, relative costs of production, the advantages of various technological processes, administrative regulations, business regulations and the like.

Phase I can take a week, months or years. It is the phase where the obstacles are the most intangible and where many prospective entrepreneurs are sorted out of the system. To estimate this drop-out rate, we return to the entrepreneurial pool. In Section 1.3, we estimated that there were approximately 400,000 potential entrepreneurs in 1988. The total number of people who completed Phase I and moved on to Phase II, in 1988, that is who registered a company name with the Register du Commerce, was 9,956. Even if only 1 out of 10 in the entrepreneurial pool initiate Phase I, there is a drop-out rate of approximately 40:1.

The principal factors underlying this drop-out rate are:

- Lack of local or national information/orientation facilities to supply potential SMEs with basic market information;
- Difficulties in accessing and up-dating the information;
- Psychological barriers and intimidation due to the various permits required by the government ministries;
- Fear of failure;
- Lack of public or private institutions specializing in reasonably priced market surveys; and
- Lack of credible agencies to work with entrepreneurs.

CREATION OF AN ENTERPRISE PHASE I

IDEA AND FEASIBILITY PHASE RESEARCH AND CONTACTS

ENTREPRENEUR HAS
IDEA TO CREATE

SEARCHES FOR BASIC INFORMATION

Information base is centralized in
Ministries Rabat/Casablanca

Contact with specialized public/private agencies

Inadequate
Information/Orientation
facility - Regional/National

MARKET DATA

TECHNOLOGICAL DATA

ADMIN/PROCEDURAL
INFO

Chamber
of Commerce

Prof Ass.

Ministries

ODI

BNDE

Private
Firms

No inter
mediary

Scarce
resource

Services
membership

Difficult
access

Specializes
in ind'l
projects

Difficult
to access
info

insuff. #
of qualif
groups

No unit
changed
with
providing
adm. info

- inad. Info

- not updates
- intimidating

- difficult
to access
info
- high work
for market
study

- lack
credibility

- high cost

- some
private
consultants

Stops
Re-
search

NO

RE-
CONSIDER
IF INFO IS
AVAILABLE

NO

PUTS
TOGETHER
OR FORMULATES
BUS PLAN

YES

PASS TO
FINANCIAL
EVALUATION

FEASIBILITY ESTABLISHED

PHASE III
ADMIN LEGAL
ISSUES

2.4.2 PHASE II: Administrative and Legal Procedures

Phase II begins when the entrepreneur takes administrative and legal steps to formally create the enterprise. The first step is to apply for a "Certificat Negatif" (CN), a trademark registration process which sets aside the name of the new company and its intended activity with the Registre du Commerce. The document is obtained by completing an application form. It is one of the easiest procedural steps; it only costs 20 DH takes relatively little time (one to four days). Issuance of CNs is centralized in Casablanca. Subsequent administrative procedures become much more complex. These procedures are detailed in Annex 5.B.

Administrative procedures are the means by which the Moroccan government seeks to protect the public at large from abuses, establishes economic controls and gathers statistics in order to rationalize economic policy decisions. In the application of administrative procedures, however, government agencies lose sight of the objectives. In practice, administrative procedures are time-consuming, redundant, and often, intimidating. This represents a significant constraint to enterprise development for a number of reasons.

- The administrative process is complex and lacks standardization.
- The ambiguity of the steps required leads to individualized bureaucratic interpretations and abuses.
- The number of steps and conditions is discouraging to the entrepreneur who wants to move quickly to take advantage of market opportunities.
- The intricacy and abundance of legal documents, as well as the number of Investment Codes, are cumbersome; the entrepreneur is forced to relinquish control to specialized consultants and agencies.
- There is a proliferation of administrative agencies which intervene in the process to approve a single investment.

If the administrative and legal process is too complex or time-consuming for the entrepreneur, he/she may choose to obtain the services of a fiduciary or accounting/consulting firm. They can reduce the processing time from months to several weeks because of their familiarity with the process and the players. Charges for services of this type range from DH 2,000 (\$250) to DH 5,000 (\$625). Banks have also established services to assist their clients in meeting legal and administrative requirements.

The results of the primary survey show that only 40% of the entrepreneurs interviewed conducted the legal and administrative process on their own. The remaining firms used a fiduciary. Of the entire sample, 20% indicated that Phase II was not a problem when they created their enterprise because they used a fiduciary or accounting/consulting service; 3% responded that it was no longer a problem because they used a fiduciary or CPA to help them in this phase. Respectively, 46% of the entrepreneurs indicated that administrative requirements were a constraint or an obstacle.

Within the context of the current trend to reduce administrative hurdles, several government agencies have adopted the position that the market, rather than the government, should determine whether an investment project should go forth. Such is the case for the Ministry of Public Works, Vocational Training and Staff Training. The Planning Division for Vocational Training, which must approve investment of new private training institutes, used to review approximately five requests per month for private vocational and technical training schools; they are currently approving over 50 requests per month. As long as the entrepreneur agrees to respect certain training norms, they grant a permit to open a facility. The market, rather than the government's administrative procedures, determine the training institute's professional and economic viability.

As the entrepreneur or the appointed fiduciary attempts to meet the legal and administrative requirements, both the enterprise and the entrepreneur become legally engaged and legally responsible in a process of "no return." It is important to note that, once they are ascribed a tax identification number and a "patente" number, they are legally engaged to pay taxes, whether or not the operation goes on to Phase III or IV.

Chart 2.4.2 describes the fall-out rate in Phase II; it tracks the number of enterprises which initiate Phase II activities and the number of enterprises which conclude it ("Registre de Commerce"). In 1988, there were 14,133 people who requested a certificat negatif and 9,956 who actually obtained it. This implies that there were 4,000 business names which were already on file and therefore duplicates. In the same year, about 2,200 enterprises submitted a request for a business license with Registre du Commerce. The drop-out rate was therefore 4.5 to 1. More than one fourth of those who start Phase II abandon the enterprise.

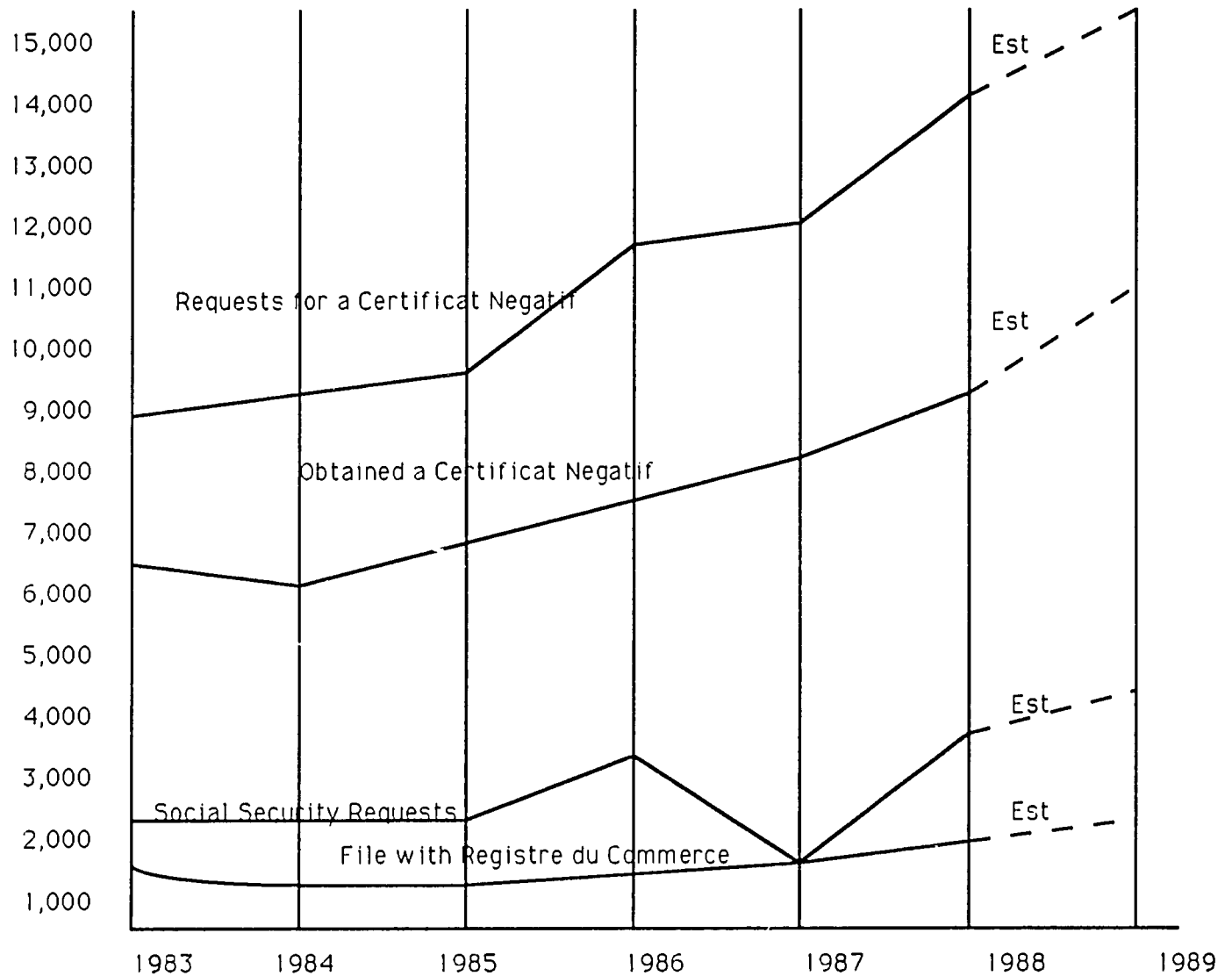
New registers into the Social Security system for the same year totaled approximately 3,800. While this indicates a drop-out rate from the Certificat of 2.6 to 1, it also indicates that more enterprises signed up cumulatively for social security than with the Registre du Commerce.

Chart 2.4.2

CREATION OF A NEW ENTERPRISE

PHASE II

ADMINISTRATIVE AND LEGAL DROP-OUT RATES BY YEAR
1983-1989



Source: Service du Certificat Negatif
Registre de Commerce
Caisse Nationale de la Securite Sociale

These numbers indicate important constraints in Phase II. The survey confirmed that entrepreneurs face significant constraints. While there is a significant sorting out of enterprises during Phase II, the numbers can also be interpreted as a significant opportunity for future intervention to stimulate private sector growth.

2.4.3 PHASE III: Financing the Enterprise

During Phase III, the entrepreneur must obtain the necessary financial resources to launch the business. This may involve preparing a loan request to a financial institution, but borrowing from an outside source greatly increases the level of risk involved in starting a new business. The entrepreneur may attempt to avoid passing through formal financial institutions; this assumes that he/she can gain access to finance from other sources, either personal savings, friends, family, or initial shareholders.

Among the entrepreneurs interviewed in the survey, 77% noted that financing was a major constraint to setting up their business; 72% stated that their business was self-financed. There was a close correlation between these two groups of entrepreneurs. In other words, it would appear that if an entrepreneur could not obtain a loan, he/she had to launch the business with personal funds. This rate of self-financing is high for SMEs; this reflects stringent credit policies, as well as procedural barriers to obtaining finance.

It was not possible to obtain national statistics on non-approval rates of loan request. Nonetheless, based on interviews, the team found that those entrepreneurs whose loan applications were rejected tended to open their business on a less ambitious level than planned. Not incidentally, the need for start-up capital and bankers' attitudes towards SMEs were rated as the predominant constraints to establishing a business. Eighty seven percent of those surveyed were constrained due to lack of start-up capital.

The procedures required to apply for a loan and the potential difficulties encountered at each step are outlined in Chart 2.4.3 and Table 2.4.3. on the following pages.

CHART 2.4.3

PROCESS FOR OBTAINING CREDIT

- BANK REQUIREMENTS
- ACTUAL PROCEDURES

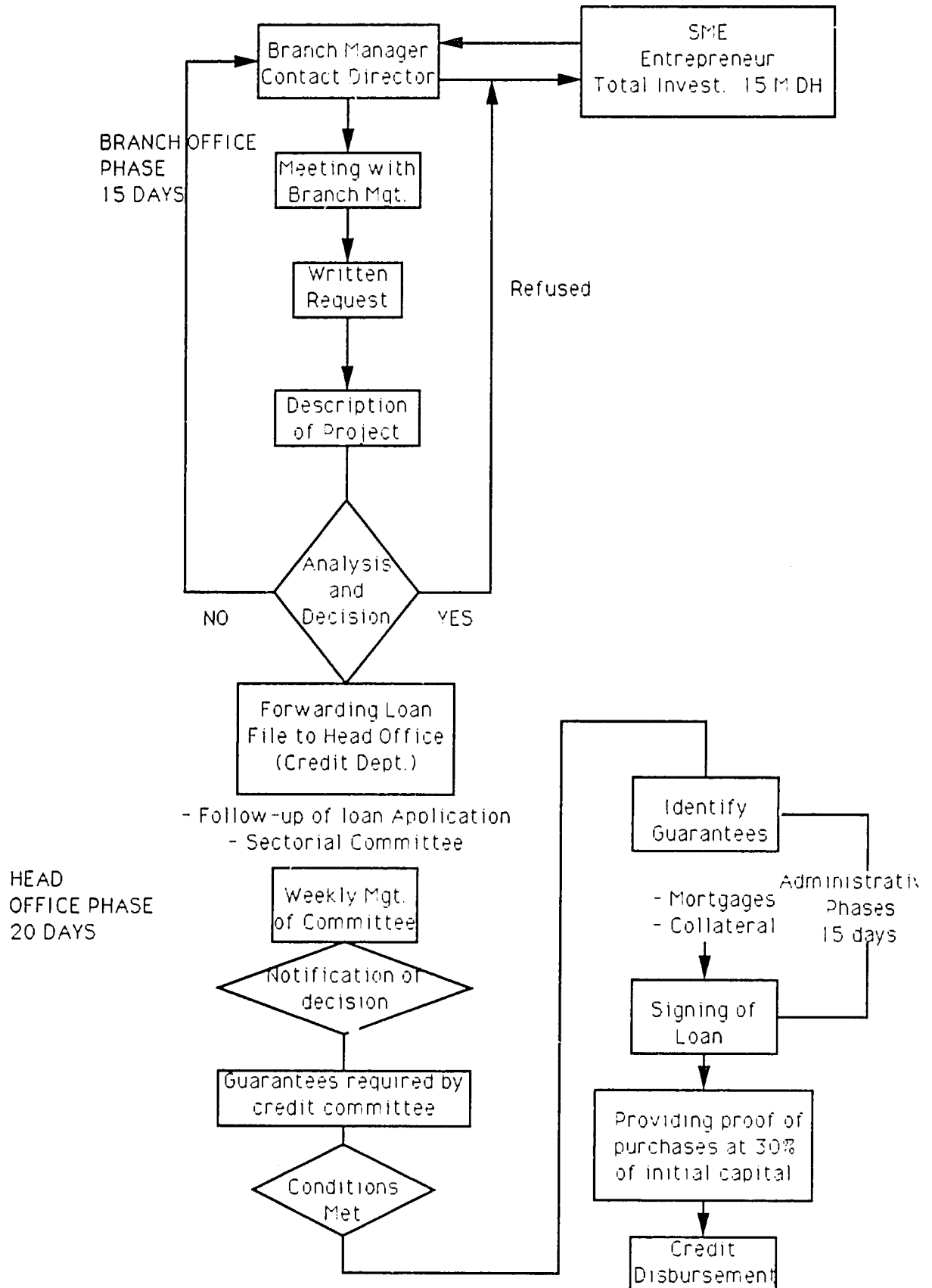


TABLE 2.4.3

CONSTRAINTS IN THE LOAN APPROVAL PROCESS

1. Stages and procedures for an accelerated loan request:
A loan is approved and disbursed within 50 days

Assumptions:

- SME's total investment is less than 15 M DH. (\$1.87 mil.)
- Line of credit is through the Bank Al Maghrib. Credit is available after 1 week.
- All guarantees are accepted.
- All justifying documents are accepted: landownership, proforma, invoices, etc.
- Administration provides necessary documents in a timely manner.

2. Stages and procedures where there is potentially one or more delay factor(s).

	<u>POTENTIAL DELAY FACTORS</u>	<u>EXTENSION OF AVERAGE DELAY BEYOND 50 DAYS</u>
<u>BRANCH OFFICE LEVEL</u>	1. Putting financial plan together without adequate skills, inputs, market information.	3 weeks
	2. Branch Office is not competent to review loan request, the application is sent to competent unit.	1.5 weeks
<u>HEAD OFFICE LEVEL</u>	3. Request for additional guarantees (gathering necessary documents, meetings required).	2 weeks
	4. In case of BNDE line of credit (justifying documents).	6 weeks
	5. In case of World Bank line of credit (justifying documents).	7 weeks
<u>ADMINISTRATION (RELATED TO INVESTMENT PLAN ONLY)</u>	6. Mortgage and collateral documentation requirements, non registered land, subdivided.	2 weeks
	7. Customs (proforma invoices)	1 week
	8. Construction permit	2 weeks

- One of the above eight points emerges as a problem in one out of every two cases; the additional delay is eight weeks (survey I).
- If all the above emerge as a problem, the delay is extended approximately 17 weeks.

Constraints in the financing process are found at two levels: (i) fear to initiate the process, and (ii) once the entrepreneur has initiated the process and submitted a request for a loan, the time and the paperwork required to obtain loan approval.

Moroccan banks and entrepreneurs have very different perspectives on the constraints to financing new enterprises. The banks indicate that only one out of four applications is viable; if a project is financially viable, they claim that the time lapse between receipt of an application and approval is minimal. In contrast, entrepreneurs claim that they cannot get access to a loan officer unless they have a relative or an acquaintance who works in the bank. The entrepreneur is usually not familiar with the bank's requirements and doesn't know how to develop valid financial projections. This points to a need for assistance to new entrepreneurs in the development of "bankable" business proposals; this should include assistance in developing financial projections and conducting analyses of the market.

2.4.4 PHASE IV: Business Start-Up

Phase IV begins when the enterprise becomes operational and initiates production of goods and services; the entrepreneur also establishes the rudiments of a management system during this phase. The entrepreneur begins to focus his/her management, technical and creative energies on producing a quality product and establishing a place in the market for that product. But equally important, the entrepreneur begins to develop internal systems to respond to two other concerns:

- * A "system" to respond to administrative requirements in the area of tax obligations, employment justification and investment code requirements; and
- * A manner to escape these same administrative requirements.

The time consumed by these two activities reduces productivity and forces the entrepreneur to focus on matters other than good competitive management. It discourages others from joining the SME sector. The drop-out rate is not high during this phase, but inadequate management systems do hamper businesses from moving into Phase V.

2.4.5 PHASE V: Consolidation, Expansion or Contraction

Problems experienced during Phase V are related to operational and management styles. Such styles are strongly influenced by socio-cultural factors. The Moroccan entrepreneur tends to keep business-related information to him/herself. This is particularly true vis-a-vis the government, but it is also

applicable to the entrepreneur's close associates, staff and colleagues. In addition, business activities have traditionally been considered a symbol of materialism and usury; hence, one always tightly guarded professional secrets at all costs.

Traditional behavioral patterns continue to prevail in Moroccan business, and in SMEs, are integrated into the management structure of the firm. They have an important impact on the conduct of business in Morocco -- and often become constraints to future expansion of the enterprise. Such constraints were examined in the secondary survey.

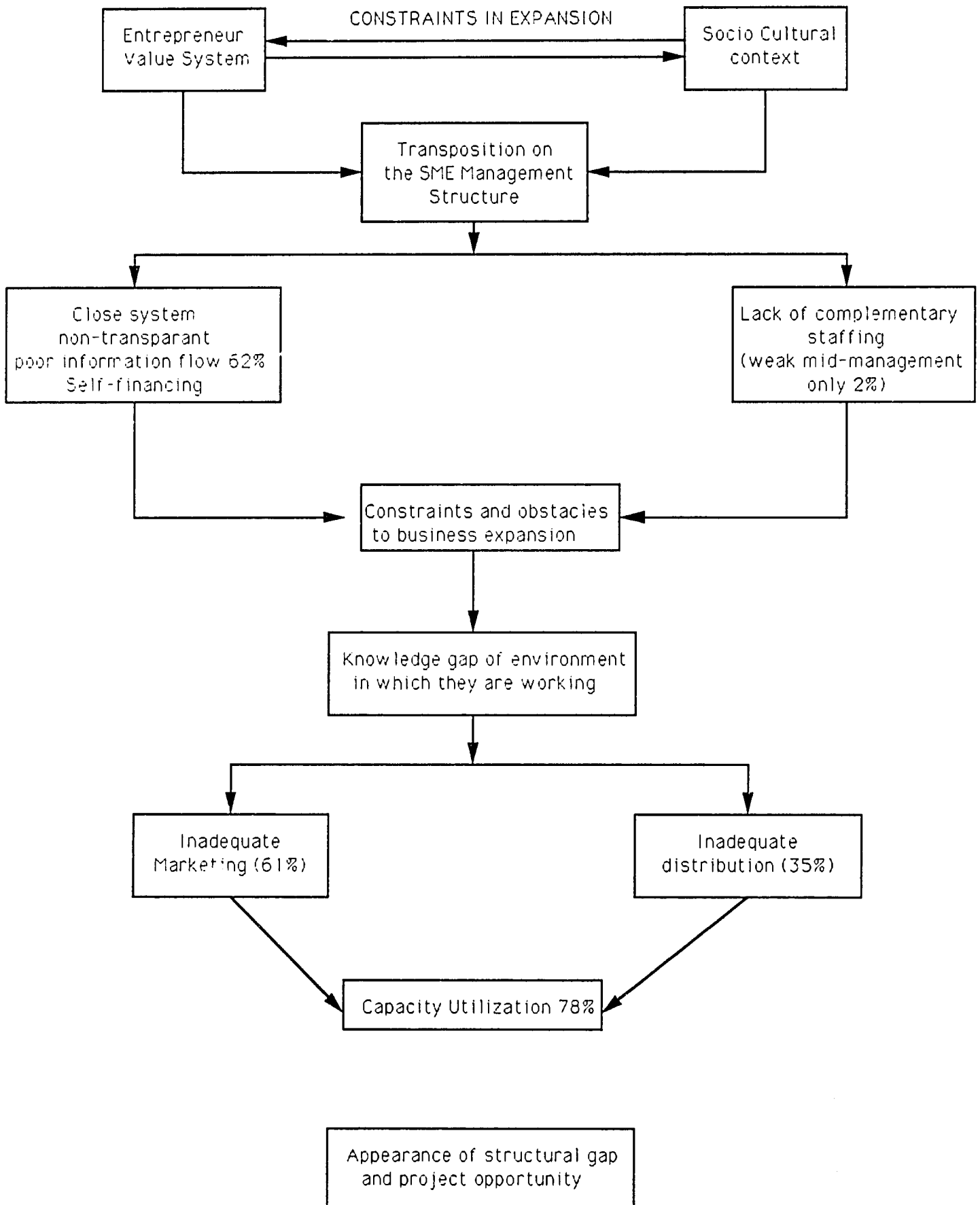
- 62% of respondents had serious production problems because of poor communication and information flow from management to staff and employees;
- 45% of respondents had such weak management systems that it placed the enterprise on the edge of bankruptcy;
- 50% of the enterprises were managed by individuals with no formal education;
- 96% of the enterprises sub-contracted accounting services; they viewed accounting as a financial constraint, rather than a management tool; and
- 24% did not know their company's break-even manufacturing costs.

Due to a lack of appreciation of the need to maintain and improve production facilities and employee skills, average utilization of capacity was approximately 78% in the firms surveyed. This indicates a potential for increased expansion of production without resorting to heavy investment. The survey results also indicated that there are serious gaps in management's knowledge of changing market demands, and of marketing techniques which could be used to increase sales.

An important concern among the enterprises surveyed was the desire for self-su, except for accounting. Reluctance to use outside assistance is prevalent, even among enterprises which have trained mid-level management and other professionals on their staff.

Regarding their interest in expanding their business, 82% of respondents said they did not want to or could not; 12% said they already had plans to expand. Under normal success-oriented circumstance, these figures should be inverted. This reveals a high prevalence of constraints in Phase V.

CHART 2.4.5
PHASE V



CHAPTER III

CONSTRAINTS IN THE FINANCIAL ENVIRONMENT

3.1 Definition of SMEs

The banking sector defines SMEs in accordance with the relevant Investment Code definitions. In addition, the various lines of credit which have been established to encourage SME development include specific criteria for defining SMEs.

Demand for credit in Morocco greatly exceeds the supply. As a result, banks can be very selective in granting credit. They usually demand various asset guarantees. The private banks (excluding Credit Agricole) have no need to take risk in order to earn a profit. Major private banks, and Government banks which deal with the public in terms of deposits, are profiled in Annex 2.B.

3.2 Analysis of SME Projects

During each bank visit, the team asked questions about the bank's method of analysis of projects. To facilitate approvals for loan rediscounting under the Credit Maximum-Term Rediscountable Loans program (CMTR), the Central Bank has established a standard format for project loan information presentation.

The standard form includes five parts:

- Part 1: General and specific information on the borrower.
- Part 2: A pro-forma sheet on the need for financing, a projection of supplier credits and loans, and borrower's equity.
- Part 3: A 5-year operational plan, including:
 - (a) Production capacity, before and after project
 - (b) Projected sales, split between local & export
 - (c) Cash flow projections
- Part 4: From the bank, details on the loan: payment schedules, duration, deferrals, interest rate
- Part 5: Bank analysis/previous credit history of client

In most cases, the banks ask the entrepreneur to bring his material to the local banker; they fill out the forms together. The banks do not give the five-part form to clients.

Other materials must be included in a credit application. According to bankers, it is these materials that cause the most problems for borrowers:

- Evidence that the client has complied with all registration and legal requirements;
- Pro-forma invoices for all imported or local material to be purchased through the use of loan proceeds;
- Title to any land or building purchase, lease or similar document which is part of the project;
- Evidence of personal guarantees or pledges of other assets that have been requested; these must be presented at the time the loan goes forward to the committee for approval.

3.3 Time Required for Credit Approval

According to Moroccan bankers, only a minimal amount of time is required to provide a response to credit applicants. In fact, banks have attempted to accelerate the loan approval process due to increased competition in the financial sector. For example, the time required to transfer loan requests between branches and the head office has decreased. Loan approval committees meet more frequently and communicate the results at a faster pace. More cautious bankers feel that the pace is too fast and does not allow for analysis of potential problems in the economy.

In most cases, the entrepreneur does not understand the bank's caution. From the entrepreneur's perspective, the bank appears too conservative because it does not share his/her enthusiasm for the new enterprise.

3.4 The Banking Sector's Perception of SME Lending

The Moroccan bankers interviewed by the team noted that small entrepreneurs who are not successful in getting credit at a bank have not established contact with a branch manager and are therefore not "known" to the bank. It is at the bank that they have not established contact with a branch manager and are therefore not "known" to the bank. It is at the agency or branch level that the credit history of the client is established. The request for additional credits must normally be introduced at this level. The branch manager is held responsible for the loan portfolio; he makes an evaluation of the entrepreneur, which is included in the entrepreneur's request for credit. The branch manager also has final discretion on the demands for various additional personal guarantees on loans.

The required guarantees are frequently a multiple of the loan amount. Under several loan programs, including the Jeune Promoteur program, no guarantees beyond the personal guarantee of the individual are needed to secure credit.

3.5 BNDE Financial Assistance for SMEs

Most of the BNDE financial assistance for industrial investment goes to the larger industries, and not SMEs, as indicated in the table below.

TABLE 3.5		
	--- Millions DH ---	
	<u>1987</u>	<u>1988</u>
Total BNDE Loan Approvals	722	1,210
BNDE Investments	15	0
BNDE Credits to SME	224	207
as: Direct Credits	37	73
(non-discountable)		
Credits from Various Programs	108	36
Credits from the CMTR Program	87	98

A recapitulation of cumulative credits accorded to SME through the BNDE during the 10 year period from 1978 through 1988 is included in Annex 6.F.

3.6 Medium and Long-Term Financing for Industrial Investment

Previously, the programs offering medium and long-term financing were a quasi-monopoly of the BNDE. Until 1988, CMTR program loans (medium term credits to SME industries) had to be reviewed and approved by the BNDE to qualify for re-discounting at the Central Bank. Until 1987, BNDE loans to industries could qualify for a special 2% reduction in interest rates for investment outside of the Casablanca-Mohammedia area.

An indication of the degree to which current financing programs satisfy investment requirements is the percentage of program loan approvals relative to approvals for Investment Code incentives. (Program loan approvals include BNDE loans, as well as commercial bank approvals of CMTR and World Bank Small-Scale Industry loans). Table 4.3 shows that this percentage fluctuated from 47%

to 72% in the 1984-1988 period. The remainder of the funds could be found in the direct loan capacity of the commercial banks.

The Ministry of Commerce and Industry and the BNDE define SMEs as enterprises employing less than 200 people. Ninety-four percent of the industrial enterprises, or 4,579 out of a total of 4,874 would qualify according to this definition. The number of approved projects has declined to less than one-third of its original volume, but lending per project has increased by almost the same amount. On a year-to-year basis, there has been only a small percentage drop in total loans.

In 1988, 48% of the enterprise in textiles and leather sector fell in the SME category. The investment was DH 791 million, or only 35% of the total investment of DH 2,233 million.

Small artisans can benefit from a special mutual guarantee program established with the Banque Crédit Populaire. For artisans to benefit from "formal sector" credits, they must be registered at the Ministry of Commerce. The total number of recipients of credit in the artisanal sector reached 10,304 (up 32% from 1987.) Employment generation in the artisanal sector was 13,860, at an average investment of DH 4,500 per job.

Most credits received by artisans are of short-term duration. In 1987, the small artisan productive sector received total credits (including short and medium term) of DH 209 million. Only DH 62 million, or 30% of the total loans were medium term credits or investment credit. In 1988 there were only 59 projects approved for a total of DH 11 million. Artisanal SMEs in cooperative associations also benefit from interest rates as low as 6%.

3.7 Leasing Companies

Several Moroccan commercial banks have established a leasing facility. This facility can be used to acquire any capital asset, from machinery to office furniture and equipment. It is most often used to purchase trucks and business cars. The leasing facility provides the investor with 100% financing, where banks only offer a maximum of 80% financing in the form of loans. The life of the asset is one factor which determines the length of the lease. Most leases run from 30 months to 5 years, with a possible 7 year lease in exceptional cases.

The Moroccan corporate tax laws permits a company to "expense" the lease payments. This enables the leasee to amortize the investment over a shorter period of time than the normal straight line depreciation that is permitted if the asset is purchased.

TABLE 3.6

Medium and Long-term Financing
for Industrial Investments

Year	1984	1985	1986	1987	1988
	DH Millions				
MCI Investment Approvals	2,778	2,831	3,546	4,690	5,783
80% average projects implemented 1/	2,222	2,265	2,837	3,752	4,626
70% max loan financing required	1,556	1,585	1,986	2,626	3,238
BNDE Loan Approvals	501	669	595	722	1,210
CMTR Commercial Banks	338	392	432	426	521
World Bank SSI Loans	33	75	90	81	18
Total Program Credits	872	1,136	1,117	1,229	1,749
Investment financing-% of Investment Approvals	56.1%	71.7%	56.3%	46.8%	54.0%

1/ - Annual MCI surveys indicate that on average, 80% of the projects
MCI approves for Investment Code status actually are implemented

2/ - Most programs limit project loans to 70%

Source: Ministry of Commerce & Industry Data
BNDE 10 Year Summary of Activities
Bank al-Magrib Annual Reports

While leasing may serve as an alternative to obtaining a loan, it offers relatively few advantages. Leasing requires all of the usual guarantees, including (i) title to the machinery or asset being purchased; (ii) title to other associated property as a supplementary guarantee; and (iii) title to other personal property to ensure repayment of the lease. In other words, the leasing company looks not only to the leased equipment, but to other property guarantees to ensure recovery of potential losses in case the client does not repay.

In addition, the net cost of a lease is considerably more than the cost of a bank loan. The actual difference is difficult to estimate, since the leasing companies judge leases on a case-by-case basis. Interest rates for bank finance are currently 13% on loans of less than five years; interest rates on leases can average 20% per year or more.

The leasing companies interviewed do not assist in the selection of technical equipment for a client. They consider themselves to be financing institutions, and wish to avoid assuming any commercial risk which might involved in recommending the asset to be purchased. However, each of the leasing companies interviewed regularly deals with certain suppliers and importers and customarily recommends them to their clients to facilitate the lease transaction.

3.8 Financing Equity Capital

3.8.1 Availability of Equity Loans and Risk Capital

The financial sources at the disposition of banks, and of most other potential investors, represent the savings and profits of others, either from their work or from their investments. Having amassed capital, banks want to receive a profit, but they tend to avoid taking any great amount of risks with their resources. Several banks have started investment bank subsidiaries. However, except for the case of the CFI, these subsidiaries do not have large capital bases from which to invest in new ventures (see Annex 2.D).

In general, Moroccan banks are not a current source of risk capital for SMEs. Start-up capital for new entrepreneurs is not readily available in the Moroccan financial system. Bank owned investment companies are not oriented to new venture or equity lending for SMEs; there are few other sources of investment equity.

3.8.2 The Need for Loan Guarantees

All medium and long-term bank loans in Morocco are customarily guaranteed by the client. Guarantees usually exceed the title in the material or equipment to be purchased. To encourage the banker to grant a loan, clients must show confidence in their projects. They do this by putting all of their other assets on the line, thereby guaranteeing their continued interest and commitment to the project.

From the banker's perspective, if a client is not willing to put his assets on the line, or has no other assets to pledge, there is a risk that the client might use the loan for some other project; this project may promise a faster and greater return ... but it may also entail greater risk. Bankers take a dim view of converting loan proceeds to such projects.

3.9 Mutual Guarantee Programs

Because of the problems in providing loan guarantees, the Banque Populaire initiated a scheme of mutual guarantees based on a cooperative approach. To date four Mutual Guarantee Programs have been formed. They are:

- Cautionnement Mutuel for the Taxis of Fez
- Cautionnement Mutuel for the Coiffeurs of Casablanca
- Cautionnement Mutuel for the Artisans of Marrakech and Agadir
- Cautionnement Mutuel for the Société des Armateurs du Gharb (fisherman with large fishing trawlers)

Trade associations are willing to guarantee repayment of loans made with the prior approval of their operating committee for credits advanced to association members. Additional information on the structures of these credit-union type mutual associations is included in Annex 6.D.

3.10 Taxation

The Moroccan tax system is undergoing a complete overhaul, and the overlays of taxes are in the process of being eliminated. The aim is to develop a system of taxes which will be easier to administer. Nonetheless, government officials remain somewhat unconvinced that the changes will be effective, and await a final verdict when the collection from all taxes is known. (The revised tax system for businesses is explained in Annex 3.A and 3.B, with an illustrated calculation in Annex 3.C.) The effective tax rate for business is about 43%.

One of the elements lacking in the new tax structure is a system

of support for small and new businesses. In the United States, for example, most small businesses are taxed at a 15% level until a respectable level of profitability is achieved. Because the U.S. also has a state income tax system, the effective tax level is usually above a \$5000 income level. This has the effect of "nurturing" small enterprises.

CHAPTER IV

AGENCIES AND INSTITUTIONS WHICH SUPPORT THE SME SECTOR

4.1 SME Divisions in Banks

Almost all of the banks have a separate loan division set up to review the applications of SME projects. These divisions are staffed with engineers and economists; they review business plans and technical feasibility studies, and conduct economic studies. Their advice on a project's viability is important to the loan review committee in the bank's head office.

4.2 Investment Promotion Groups

4.2.1 Office of Industrial Development (ODI)

The Office of Industrial Development (ODI) has a single headquarters office in Rabat. ODI is primarily a state-holding company for larger industrial enterprises in which it has invested DH 2,480 millions through 1988. Of this investment, DH 1,980 million or 80% has been made in more than 35 affiliates which it effectively controls. Another DH 500 million represents the initial cost of equity participation in companies in which ODI does not have a majority interest.

It is noteworthy that twenty of ODI's companies were listed in the recent announcement of state organizations to be privatized. They were predominately ODI's holdings in cut and sew textile companies and the metal, mechanical, and electrical industry sectors. The formula for ODI's holdings appears in Annex 6.G.

In 1988, ODI was involved with 22 projects representing DH 80 million and providing employment for about 1100 workers. When subsidies from the government budget were halted, ODI was forced to economize; it stopped its free services to potential SME investors in terms of project preparation. Presently, ODI offers its services only on a fee basis. As part of this activity, in 1988 ODI completed some 30 sectoral studies towards future entrepreneurial activity. These studies are available for review in their library, to clients who have contacted ODI's SME department. Clients can prepare project proposals using ODI's reference materials; on a pre-arranged, paid basis, ODI will review and provide on SME entrepreneurs' feasibility studies.

In addition, ODI maintains an outreach office in Paris from which it searches for joint-venture investment partners. The Paris office has served as an important source of information for finding sub-contract work in the cut-and-sew textile field. ODI is currently negotiating with the Belgian government to assist in

the establishment of a similar investment promotion office to be situated in Brussels; it is planned as technical assistance under the joint-venture credit program.

4.2.2 The Directorate of SME Studies

The Directorate of SME Studies in the Ministry of Commerce and Industry is specifically charged with expansion of the industrial base in Morocco. Its office is located in a new building in Rabat. The Directorate has been responsible for coordinating two new initiatives in the area of SME support, both financed by international donors. The first is the creation of two "Cité Industrielles" to respond to problems in the availability and cost of land and industrial space; the second is an expansion of ODI's overseas branch offices to better serve export oriented enterprises. Given that these two initiatives have just recently been launched, their success cannot yet be determined.

4.2.3 The BNDE Feasibility Studies Unit

Under a French Government sponsored program managed by the BNDE, up to 80% of the cost of feasibility studies for investment projects can be financed. The ceiling is FF 200,000 (\$35,000). The program administered by the BNDE is a loan, with a maximum duration of 6 years and can be deferred for 3 years.

4.3 Business Associations

4.3.1 The Chambers of Commerce

Morocco has a Chamber of Commerce and Industry network which is no longer appropriate for its evolving economy. The Chamber system is comprised of 25 branches throughout the country and is dominated by the Casablanca Chamber. Until two years ago it was totally dependent on government subsidies. It was ineffective and lacked direction, credibility and active membership. It tried to provide services in the area of information; it welcomed foreign delegations and issued Certificates of Origin for exporters.

Within the context of recent reforms, the Chamber system has been given a new sense of autonomy; it now has the potential to evolve into a much more dynamic force in private sector growth. The Chambers are still to be funded through government collected funds. A 10% surcharge on the Patente Tax is to be turned over to the Artisanat and the Commerce Chambers, 24% and 76% respectively. Thus, the Chambers have increased their chances to obtain a steady income flow. To benefit from the tax surcharge,

the Chambers presented to the Ministry of Commerce and Industry an ambitious budget and work plan for services which they intend to provide. As an indication of its enhanced autonomy, the Chambers obtained the authority to recruit staff from the private sector and to pay wage above those of public servants.

At present only the Casablanca Chamber of Commerce and Industry is being significantly restructured; this is due to the appointment of a new Executive Director who is working closely with the Ministry, the Chamber's Board of Directors, and affiliated associations. The other Chambers in Morocco are waiting for the reorganization of the Casablanca Chamber before they initiate their own restructuring process. Regional Chambers have begun to increase their strength by participating in local Commissions which institute certain controls in enterprises (such as health inspections and price controls).

Near-term plans of the Casablanca Chamber are to establish four new divisions. They will be charged with:

- 1) Information and documentation;
- 2) Training and assistance to the SME's;
- 3) International trade; and
- 4) Promotion and public relations.

Plans are to replicate the first two sections within the network of secondary Chambers and to concentrate on orienting the Chamber's program toward the SME sector. Traditionally Chambers have catered to larger business interests, and to the commercial sector.

The Chamber network is complemented by the Confederation Générale Economique Marocaine (CGEM). This organization is regarded as the equivalent to the "Patronat" (Employers) association in France. The CGEM represents most effectively the interests of large Casablanca businesses; as a result, it is perceived by small and medium entrepreneurs as having a different agenda.

4.3.2 Industry/Economic Sector Associations

In addition to the Chamber and the CGEM, the private sector includes among its representative organizations a broad spectrum of professional associations. There is an abundance of these associations. According to the 1987/1988 Kompass Directory, there are some 90 associations which are listed as "operational," i.e. that they have at least an address and a phone number. In reality, the majority of the groups are non-functional. The associations are grouped in 14 categories, including agricultural producers, food processors, builders, wood working industries, metal, mechanical and electrical Industries, leather and textiles. There are no associations of associations.

The associations defend the specific professional interests of their members. It is important to note, however, that the large majority of associations are little but a grouping of a few enterprises. The more dynamic and larger associations, of which there are less than a half dozen, represent their members at inter-ministerial commissions; industry-specific issues are debated such as production costs, import duties, labor codes and tax burdens. Members generally pay a modest fee ranging from 500 to 5,000 DH per year.

Several key associations are important because they are in sectors of future growth or because they have an open attitude toward increasing membership of SMEs through outreach. These associations are described in Annex 6.H; the annex highlights their past accomplishments and present strategy. The associations which might be encouraged within the context of enhancing private sector growth and autonomy are those in the textile sector (AMIT), the mechanical, metals and electrical industries (IMME), the construction sector (FNBTP), and agro-industrial sector (FICOPAM).

4.4 Training Institutions and Regional Associations

One of Morocco's most ambitious initiatives has been in the area of human resource development. Positioned strategically between the formal educational and employment sectors, there is a broad network of professional/vocational training institutions which are both public and private. There are approximately 1,200 public and 600 private institutes with a total enrollment of about 120,000 students per year. The graduates entering the labor force from these institutions number around 40,000. The majority of these institutes have been created since 1984 following reform measures initiated by the King to encourage investments in public and private training and vocational institutes. Each of the technical ministries has a number of institutes throughout the country which are devoted to training in specific technical areas including fisheries and maritime industry, agriculture, tourism, public works, mines, and handicrafts.

Funds to finance the public institutes come from a mandatory tax on all Moroccan businesses equivalent to 1.6% of all salaries. Currently, private institutes finance their own activities from tuition fees. However, the association organizing the private institutes is asking for a share of the mandatory tax revenues.

For public institutes, the training cycle is apportioned into three levels: "specialization"; "qualification" and "technician." The private institutions have a range of courses in the fields of secretarial skills, accounting, computer science and basic management.

The public institutes are administered by the Ministry of Public Works and Professional Training (Ministere des Travaux Publique, de la Formation Professionnelle et de la Formation des Cadres, TFPFPC). These institutes recently introduced a commendable program of modules in accounting and small business management. The Direction of Planning within the Ministry has taken the lead in encouraging all of TFPFPC's students, from the time they begin vocational training, to consider owning their own business as the best hope for employment.

The Ministry performs a number of tasks. It provides students with guides on how to establish a business; sponsors information seminars on topics critical to new enterprise creation, such as how to access Jeune Promoteur funds and how to take advantage of Law 16); conducts site visits to businesses; invites business people to give orientation workshops; distributes useful information and data; and maintains a regular publication geared to new entrepreneurs. It conducts follow-up work on its students who enter into business and even introduces them to banks.

An important phenomenon in Morocco has been the creation of "regional economic and social development associations." Each is named after the region in which it operates. Their objectives are to promote investments in their regions in all sectors. The associations are quasi-private intermediaries between potential investors, local authorities, and local committees responsible for facilitating investments outside urban centers. The associations publish newsletters and conduct theme programs specific to their region. They claim they can assist investors in locating land and buildings sites and can open doors to local businesses and local authorities. Given that regional associations have just recently been established, it is too early to assess the impact that these associations might have on attracting investment and facilitating new enterprise development.

4.5 Laws Assisting the SME Sector

"Loi 16" was promulgated in July 1989; the law is an extension of "Loi 36/87" (see Annexes 6.B. and 6.C). It is directed specifically toward graduates of vocational schools. It aims to remove obstacles to business creation that would normally apply under the Jeune Promoteur (or Young Entrepreneurs) Program. The law does not apply to doctors or lawyers, or to those with a professional education, who have widely used the Young Entrepreneurs Program.

Law 16 provides for three incentives for new enterprise creation:

- Businesses are exonerated from income tax for up to 5 years;
- Graduates may set up their business anywhere in Morocco and still qualify for Investment Code exemptions under the Young Entrepreneur law; and
- Graduates of technical and vocational institutes can work in any business as an apprentice, without being engaged under a formal contract. They can gain experience with or without pay, and do not have to be employed under a contract.

The third incentive is particularly important. Employers have expressed reticence to hire new workers because that entails signing formal employment contracts as specified by the Labor Code; Law 16 alleviates this restriction.

Graduates of vocational schools, public or private, are encouraged to seek financing through the Young Entrepreneur scheme. Under this law, they gain the additional benefit of acquiring experience in a business as an apprentice. They are exonerated from profit and TVA taxes during the critical Phases IV and V of their operation. In addition, they can benefit from Investment Code incentives, even if they establish a SME in Casablanca or Rabat.

4.6 Universities and Commercial Business Schools

The University system in Morocco does not have a separate business school, although it includes within its "Faculte de Science Economique" a modest business/management option. At the largest university, Mohamed V University in Rabat, there are only 25 students specializing in management; each had to pass a selective process in order to gain admittance. While the Moroccan university system is not geared toward business and entrepreneurship, programs in economics and engineering appear to generate the greatest number of new entrepreneurs.

The commercial school with the best reputation in Morocco is ISCAE, L'Institut Supérieur de Commerce et d'Administration des Entreprises in Casablanca. It operates under the Ministry of Commerce and Industry; approximately 150 students graduate per year, most of whom go directly into industry and are recruited aggressively by larger firms. Its curriculum includes basic courses in management, accounting, personnel, marketing and international trade. It is relatively weak in preparing students to overcome the business start-up obstacles outlined in Sections 2.3 and 2.4 of the report.

A member of a recent graduating class indicated that about 30

graduates made plans to set up their own enterprise upon leaving ISCAE. Of the thirty, only one was able carry through with the plans; the others abandoned their projects because they were unable to obtain a bank loan due to guarantee requirements.

CHAPTER V

RECOMMENDATIONS

5.1 Key Conclusions

The base-line survey for this study was performed to identify the constraints to the fulfillment of policy objectives. The most important policy objective is to alleviate the serious problem of unemployment, especially among the young, and those who are entering the work force each year from the schools and universities in Morocco. A second policy objective is to increase employment opportunities in the private sector through the formation of additional small and medium-scale enterprises. The survey uncovered some important facts:

- The number of individuals applying to start new enterprises has been increasing significantly for the past 5 years.
- In 1988, there were approximately 11,000 potential business ventures, as defined by the number of entrepreneurs who obtained a Certificat Negatif. Employment levels in new SMEs average 4 to 5 workers per enterprise. Theoretically, it would have been possible to create employment for 44,000 to 55,000 people in 1988, if all these potential business ventures had been able to proceed through the other four phases of enterprise development.
- As SMEs mature, employment levels approach the Moroccan average of 21.7 workers per enterprise in 3 to 5 years.
- There are approximately 400,000 potential entrepreneurs in Morocco. If all of them were to create a new business with an average employment of 4 to 5 workers, the potential employment creation would be another 1.5 million jobs, or double the present employment rate in Morocco (including the foreign employment of TMEs).

5.2 Key Trends

The team concludes that the greatest potential for success lies in an effort to catch the flow of social and economic trends taking place in the environment. An attempt to promote private sector employment, which only addresses the constraints that now exist, would require constant changes and redirection; the landscape is a moving target.

Some of the most important trends that will have an impact on SME development are the following:

a. International Market Demands

Competition is increasing in foreign markets; Moroccan products will face increasingly stiff competition in terms of price and quality.

Foreign importers are increasingly dissatisfied with the quality of Moroccan merchandise due to the number of small defects. Defective merchandise made for export is sold on the local market; it avoids duty and earns the enterprise an informal sector profit as it competes with similar types of consumer merchandise on which duty is applied.

b. Government Trends

There is some evidence of willingness at the highest levels to disengage government from control of the private sector and to facilitate new enterprise creation.

c. Educational Trends

The education level of potential entrepreneurs is increasing. While many of Morocco's successful entrepreneurs have had little formal schooling, they come from a population that has similar educational standards. Now, more people are finishing secondary and higher education, and fewer drop out for employment. Part of this trend is due to the lack of employment opportunities. Nonetheless, the future entrepreneur will have a higher level of education.

d. Population Trends

Urban population growth rates will continue to rise due, in part, to migration from rural areas.

As the number of people increase in urban areas, more people will be seeking wage-earning employment.

e. **Attitudinal and Social Trends**

Greater numbers of young women are in the work force, especially in urban areas.

Television is creating strong consumer demands. In the past, Moroccan television was purposefully limited because of religious and traditional cultural concepts. It is becoming, however, an important force in the Moroccan culture. Demand for more choice in programs is growing. Television has encouraged viewers to adopt the "modern" consumer way-of-life.

Attitudes toward working in the public vs. private sector are changing. In the past, the main goal for many of the educated was a job in government. Gradually, Moroccan society is recognizing that business is an acceptable way to make a living.

f. **Economic Trends**

Overseas remittances from Moroccan workers declined by 17% in 1988.

Phosphate sales and prices are declining.

Morocco still has a comparative advantage in terms of the cost of labor.

These trends are likely to have an important impact on future SME development in Morocco. New enterprises will have to be more competitive on an international scale. They will have to integrate up-to-date manufacturing and marketing procedures. The Moroccan government will need to provide guidance and assistance to the SME sector, rather than control. A more structured SME sector will be needed. Urban areas will have to support the creation of SMEs. And innovative financing mechanisms must be developed for SME growth.

5.3 **Key Institutional Actors**

Selection of the agents through which corrective action can be made is crucial to the probability of success of the project. For the pre-operational stages of a SME, Phases I-III, the Government, banks, the chambers and the professional and regional associations are important players. The chambers and the professional associations should be more carefully examined. They need to be better structured so they can expand their services to potential entrepreneurs, assist in restructuring

existing SMEs and prepare loan request applications to be passed on to financial institutions.

In Phase III, the banks will continue to be key agents. Funding potential entrepreneurs with equity capital, either through an expansion of existing programs or the creation of a financial instrument, must be envisaged on the basis of cash-flow lending and medium-term credit.

In all phases, reduction of the government's presence in private sector activities should be encouraged. This requires policy reform. The objective of policy reform is twofold: first, to permit greater private sector autonomy, and second, to accelerate the administrative reform measures required to foster SME growth and expansion.

5.4 A Strategy for Promoting New Enterprise Development

The team recommends an approach where the intervention in the sector is innovative in form and substance; the approach should contain some of the same type of "risk" factors that one would expect small and medium entrepreneurs to undertake when they initiate a new project. Recommendations focus on medium- and long-term impact rather than short-term adjustment.

The recommended strategy is divided into three components:

- Policy reform to institute administrative, regulatory, and legal change;
- Institutional development to structure SME support services. Support can be provided through existing organizations to assist in serving the private sector;
- Financing based either on expanding existing programs or on creating a pilot effort to accelerate the development of financial instruments. These instruments should be oriented toward capital mobilization.

5.4.1 Policy Reform

Chapter 2 of the report demonstrated that the environment in which SMEs operate is constrained by administrative procedures and controls. These procedures are not adaptable to the present and future demands of the sector.

There is a lack of clarity, structure, confidence, and regularity in the administrative permitting process. On the other hand there are strong indications that the GOM, which is in part

responsible for creating the environment, is committed to reducing administrative constraints and disengaging the State from private sector activities.

The will to change is within the spirit of the required policy reform proposals. While the team believes there is momentum for change, the GOM lacks the incentives and resources to implement the reforms required. The GOM needs technical and financial resources to bridge the strategic gap between will and implementation.

Administrative reforms should focus on harmonizing law and procedures with what is actually practiced and enforced. If the GOM states that it wants to simplify investment procedures, then the process must be simplified in a fashion that can be verified.

The proposed reforms include the following:

- The requirement that the GOM protect the public from fraud or other malfeasance in the process of setting up a business should require no formalities other than filling out a unitary application (Dossier de Creation) to the Commerce Register. The "dossier" should include a request for a business trade name, simple proof of a bank account, request tax forms and a unitary business number applicable for all latter phases of operations. It should be possible to obtain the required forms through mail.
- The requirement that new businesses register with the Income Tax authorities should be fulfilled with a simple transfer of the unitary business number from the Commerce Registry to the Department of Taxes in the Ministry of Finance.
- The Administration should provide the option of registration by mail and should not require a personal appearance.
- The GOM should authorize and permit any agency to establish a "one-stop shop" (guichet unique) to service the start-up of new businesses in the private sector. There should no monopolies on services to SMEs.

The expected results of the policy reform are:

- Receipt of a unitary business number would signify the legal existence of the enterprise. It should permit the entrepreneur to initiate Phase III, financing, and Phase IV, start-up operations. The entrepreneur would no longer need to run the "guichet" marathon.
- The continued preference for selection of a corporate format could be discouraged; it results in double taxation and is inappropriate as a type of legal entity for the typical SME.

- Requests for benefits under the Investment Codes could be submitted after the business has initiated operations. A single form should be required. Approvals should be given automatically, if certain minimum requirements are met.

The justification for a radically simplified administration process is, that for SMEs, **the market** should determine the economic viability of an enterprise, **rather than the government**, through its intricate administrative and licensing procedures.

Additional policy reform measures include:

- A comprehensive review of the Commercial Code, Labor Code and Judicial Code should be encouraged, to reflect a changed business environment. The team noted the lack of provisions for bankruptcy protection for an owner during the legal proceedings with his creditors.
- The team recommends the disengagement of government control from the Chambers of Commerce and the business/industry associations, including the Bankers' Association. We do not believe organizations with appointed government staff (civil service) properly represent the private sector.
- The team recommends additional research in the area of informal/formal sector movement. The study should focus on the factors which encourage -- and discourage -- businesses from becoming legally registered formal sector enterprises.

5.4.2 Expand SME Support Services

The analysis phase of the study revealed widespread gaps between the entrepreneur's **perception** of what was available in terms of financial projects, lines of credit, market information, administrative procedures, and what was **actually** in place. In addition, the data revealed widespread financial weaknesses in small and medium enterprises; SME businesspeople lacked the planning skills required to evolve and adapt to increased competition and technically demanding markets.

Specific assistance to the Chamber of Commerce and the network of professional associations could be helpful. This could begin as a pilot program for one of the secondary or tertiary Chambers in SME program development and information dissemination. Assistance could be provided to those professional associations that represent sectors of growth. This would enable the associations to provide effective outreach to existing and new members in the areas of management, information and training, and assistance for new start-ups.

5.4.3 Expand Financing

The lack of start-up capital was cited as the major constraint to existing firms, particularly during their critical start-up phase. The team does not recommend instituting an easy credit policy, either through the banking sector nor through new projects. However, credit ceilings and high collateral requirements for new business loans are major obstacles to enterprise development.

The team recognizes the value and simplicity of piggy-backing onto existing programs and therefore includes among its recommendations participation in several financing programs it feels have merit and respond to trends.

The team also recommends the establishment of a mutual/credit-union fund to be patterned after an existing Moroccan banking instrument known as "cautionnement mutuel." This instrument is available only at the Banque Crédit Populaire and groups SMEs from a particular profession. The basis of the "cautionnement mutuel" is the need for loans to purchase equipment. Through the SMEs' membership in the mutual guarantee association, there is a collective guarantee to the bank to secure loans, provided the SME gives the "nantissement" or chattel mortgage on the equipment.

The concept could be enlarged to include SMEs in other industrial sectors through institutional development of the appropriate industry or affiliated professional associations. A Guarantee Fund could be created and augmented by contributions from the associations and individual subscribers. Banks signing on would be required to "insure" their loans, with a portion of the interest earned. The team recommends that the Guarantee Fund be managed through a board composed of representatives from the Chambers, selected industry and professional associations, and private banks chosen by the Bankers' Association.

Note: The idea for creating additional financial intermediation and surrogate investment mechanisms was proposed as a method of mobilizing equity capital in a March 21st, 1989 memorandum.

ANNEXES

PART I

SUPPLEMENTARY INFORMATION ON MOROCCO AND THE SME SECTOR

ANNEX 1

SUMMARY DATA ON THE MOROCCAN ECONOMY

ANNEX 1.A

SELECTED ECONOMIC STATISTICS FOR MOROCCO

Area:	711 thousand sq km
Irrigated or arable:	80 thousand sq km - 12%

Population: (est. mid-1988)	24 million
Population: Growth Rate	2.6%
Urban	46%
Under 20 years	52%
Active	30%

Major Cities: (by approximate size)

Casablanca	2.2 million
Rabat (CAPITAL)/Sale	1.1 million
Fes	0.5 million
Marrakech	0.4 million
Meknes	0.3 million
Tangier	0.2 million

Rural Population:	54%
Percent Farming:	47%
Farm Animal Population:	16 to 17 million (60% sheep)

Literacy:	28%
Religion:	97% Islam

Natural Resources:	Phosphates Lead, Manganese
--------------------	-------------------------------

GNP - 1988:	\$23 billion - DH 184 billion
GNP Per capita:	\$950 - DH 7,693
GDP Growth Rate:	3.6%

	<u>Percentage 1988 GDP</u>
Agriculture	18%
Industry	17%
Commerce	20%
Service	12%
Government	10%
Exports	22%

Balance of Payments Factors 1988 (before Debt repayment)

Exports:	\$3.7 billion - DH 29,750 million
Imports:	\$4.9 billion - DH 39,130 million
Trade Balance:	(\$1.2) billion - DH 9,380 million
Net Travel:	\$1.0 billion - DH 7,700 million
Moroccan's Working Abroad	
Remittances home:	\$1,5 billion - DH 11,682 million
	(note: 1988/1987 net decline 17%)

Debt repayment % of exports: 46%

Tourism as Export: \$1.1 billion DH 9,050

2 million tourists, 24% French, \$550 average expenditure each;
Represents a 24% increase in tourist volume 1988/87

<u>Major Exports:</u>	Phosphoric acid, phosphate, fertilizers
(in order of importance)	Garments (cut and sew)
	Crustaceans (Shrimp) and mollusks
	Citrus Fruit
	Hosiery
	Fish - fresh, canned, salted, dried
	Preserved and canned Vegetables
	Carpets, rugs
	Paper pulp
	Shoes and leather goods
	Fresh tomatoes (fall variety)

	Export Value
Phosphates, etc. Minerals	40%
Agriculture	28%

<u>Major Imports:</u>	Petroleum Products
(in order of importance)	Sulphur
	Other Chemicals
	Machinery and appliances
	Wheat
	Wood
	Plastic materials
	Iron and steel
	Commercial Vehicles
	Ships and boats
	Paper and paper board
	Consumable Vegetable oils
	Textile machinery
	Cotton fabric

	Import Value:
Crude Oils	12%
Sulfur & Chemicals	12%

Major Trading Partners:	Exports	Imports
(1988)		
	France 26%	France 22%
	India 9%	Spain 8%
	Spain 7%	Germany 7%
	Germany 6%	USA 7%
	Italy 6%	Italy 6%
	Japan 5%	Canada 5%
	Belgium 4%	Iraq 5%

ANNEX 1.B

THE MOROCCAN ECONOMIC SITUATION

The Moroccan economy continues to suffer from what have been called "internal shocks"; these include both the continued state of war with the Polisario in the southern Sahara area, and the tightening of the economy due to the high level of external debt. Morocco's commercial creditors and the IMF have both designed structural adjustment programs for the economy.

At the time of independence Morocco favored a policy of "import substitution" investment, through systems of tariff barriers and outright import prohibitions; a "Moroccanization" of foreign ownership was initiated in 1972.

In response to domestic need for oil, capital equipment, and raw materials for manufacturing industries, the Government borrowed abroad. The resource gap, and the ratio of net external financing reached a maximum of 20% per year; at present, between 82 to 86% of exports would be required for current debt service, if payment rescheduling were not possible.

When sources of external borrowing dried up, continued importation of capital machinery for local production was no longer possible. It was judged that Moroccan goods being produced behind protective quotas and other barriers were too expensive. The advantages of quantity production did not materialize because the internal market was too small. The solution, according to the World Bank and the IMF structural adjustment programs, was to turn away from import substitution, thereby exposing local manufacturers to import competition and encouraging them to search for Moroccan "comparative advantage" in producing and manufacturing for export.

Morocco's main export through 1988 was phosphate, both as a raw ore and in various derived product forms, such as fertilizers. However, world environmental concern over excessive use of phosphates has been growing, therefore their market is shrinking.

The major Moroccan foreign exchange earners in the future will be tourism, textile "cut and sew" sub-contracting operations, and crustaceans and mollusks. Agricultural products, some of which have been transformed through either artisanal or industrial processing, have a good future and could continue to grow.

Morocco has traditionally exported its agricultural products to France. With the entrance of Spain and Portugal into the European Common Market, Morocco may lose its share of the French markets for agricultural products (including wine, vegetables, fish, olives and citrus). It is therefore necessary to develop better market alliances with the other European countries, taking advantage of

their open quotas; non-Common Market countries should be targeted, as their market potential for Morocco is undeveloped.

Structure of the GDP

The industrial sector represents about 35% of Morocco's GDP, with manufacturing representing about 20%. More than half of GDP is represented by the commercial, government and service sectors.

Except for industrial sectors with a high capital-labor ratio, Morocco's industry is dominated by small industries and handicrafts. As a result of the period of orientation towards import substitution, the manufacturing sector is weighted towards production of consumer goods, with capital goods less than 10% of total production. The industries with the lowest wage rates, such as garments and hosiery, tend to have the highest level of exports. Morocco has not yet developed many other manufactured products for export.

The agriculture sector, in which Morocco enjoys some comparative advantage, continues to decline as a percentage of GNP, due to low productivity. Nonetheless, Morocco is dependant on agricultural production. Canning and food preservation, wood products, cotton textiles, leather and leather goods are the main agricultural industries which export. In these fields, Morocco's comparative advantage is based on its proximity to final markets in Europe; it is dependent upon the continued relative low cost of Moroccan labor. The economy has had two good years of agricultural production, with sufficient and timely rains; concern is often expressed about the possibility of drought or locust infestation.

Trade Balances

India, Morocco's major purchaser of Phosphoric acid, withdrew from the market for eight months in 1989, due to a trade dispute. The sale of Phosphoric acid was down by DH 2.5 billion. This resulted in a serious decline of exports through the first eight months of the year of 5.6% (DH 1 billion) relative to the same period through August in 1987; imports were up through the same period by 18.2% (DH 4.5 billion). The increase in import cost was caused by: (1) the increase in petroleum costs of DH 1 billion; (2) an increase in semi-finished goods of DH 1.4 billion; and (3) an increase in investment goods of DH 1.8 billion. During the first 8 months of 1989, Moroccans continued to spend DH 400 million each on imported food stuffs and consumption goods, imports which they can not afford in their present economic situation.

The net balance of trade through August 1989 was negative by DH 12.8 billion; this represents a 76% increase in the deficit. The ratio of exports to imports declined from 73% in 1988 to 56% in 1989.

ANNEX 1.C

POPULATION AND EMPLOYMENT STATISTICS

Total Population in Morocco (1988) - 23.958 million
Urban Population: 10.3 million - 44% (base year 1986)

58% of male population under 25 years
59% of female population under 25 yrs

Employment consists of:

65% of male population (between 15 and 60 yrs)
20% of female population (between 15 and 60 yrs)

Types of Employment:

Manual Workers	44%
Commercial & Sales	13%
Service Sector	13%
Professions	10%
Administration	9%

Employment Situation:

Salaried Workers	64%
Independent	14%
Home workers	6%
Family assistance	3%
Apprentices	3%
Employers of others	3%

Employment in the Industrial Sector: (1987/88)

	Sector	(000)	
Food Industry	(10/11)	85.6	
Textiles	(13)	63.8	
Fabrication	(14)	52.4	
Mines and Quarries	(18)	24.0	
Chemicals	(25)	23.2	
Metal Working	(20)	18.3	
Leather	(15)	14.8	
Paper & cartons	(17)	12.1	
Wood & Products	(16)	11.1	
Electrical Mat	(23)	10.5	
Plastic & Rubber	(26)	10.6	
Drinks & tobacco	(12)	10.4	
Transport	(22)	8.4	
Construction Mach	(21)	5.9	
Industrial metal	(19)	2.4	
Total employment		355.1	+20% growth over 1987
SME (<100 employees)		92.0	26% of Industrial Sector

Govt Employment:	332.6
Urban Employment:	3,212.0

Annex 1.C

ANNEX 1.C
POPULATION AND
EMPLOYMENT STATISTICS
1988 Survey

	1986	1987	1988
	-----thousands-----		
Total Population	22,703	23,376	24,958
Urban Population	10,122	10,544	11,258
Active Population	3,212	3,370	3,504
Active and Working	2,713	2,888	3,028
Active and Unemployed	499	482	476
Percent of Urban Population Active	31.7%	32.0%	31.1%
Total Population: (Rural & Urban)			
From 15 to 24 years	4,636	4,750	4,867
From 25 to 44 years	5,202	5,431	5,670
From 45 to 64 years	2,552	2,616	2,682
From 65 years over	911	956	1,003
Over 15 years, under 65 years	12,390	12,797	13,218
Active Population over 15 years	3,132	3,286	3,417
% Population over 15 yrs and active	25.3%	25.7%	25.9%
Rate of Activity by Age			
From 15 to 24 years	36%	34%	34%
From 25 to 44 years	62%	63%	63%
From 45 to 59 years	51%	51%	51%
From 59 years up	24%	20%	23%
From 15 years up	48%	48%	48%
Rate of Unemployment			
From 15 to 24 years	31%	28%	28%
From 25 to 44 years	12%	12%	11%
From 45 to 59 years	7%	6%	5%
From 59 years up	7%	5%	4%
From 15 years up	16%	12%	14%
Percent between age 15 and 60 years	male	female	both
Education Levels:			
Grade school Graduate	24%	17%	20%
High school graduate	13%	8%	11%
University graduate	14%	9%	12%
Cumulative	52%	34%	43%
Working Population	65%	20%	24%

Source: Annuaire Statistique du Maroc 1988 and employment information from Direction de la Planification de la Formation Professionnelle

ANNEX 1.D

POPULATION TRENDS

Past and Projected Population Growth

Year	1986	1987	1988	1990	1995	2000
Urban millions	10.3	10.5	11.0	12.6	13.7	16.0
Annual Growth(%)		1.9	5.1	7.1	1.7	3.4
Rural - millions	12.4	12.8	13.0	13.6	14.4	15.8
Total - millions	22.7	23.3	24.0	26.2	28.1	31.8

Projections by Centre d'Etudes et de Recherches
Base Data from Census

ANNEX 1.E

1988 UNEMPLOYMENT RATES BY AGES AND EDUCATIONAL LEVEL

AGE	15 TO 24	25 TO 44	45 TO 59	TOTAL
EDUCATION LEVEL				
Without:				
Grade school	18.4%	9.0%	1.9%	10.2%
Finished:				
Elementary	35.4%	12.7%	3.5%	19.0%
Secondary	55.3%	18.9%	0.8%	27.0%
Baccalaureatte	66.6%	26.6%	1.1%	30.2%
College	30.2%	6.9%	0.7%	7.0%
University	51.8%	12.8%	0.9%	16.0%
Professional	48.3%	19.9%	5.0%	27.0%
Total	27.5%	11.6%	4.4%	13.9%

Source: Ministre des Travaux Publique

ANNEX 1.F

1988 MINISTRY OF COMMERCE AND INDUSTRY SURVEY OF SME

A 1969 census of industries with characteristics typical of SME's showed that there were approximately 2,800 such establishments employing from 5 to 50 workers; on average they employed 13 workers per establishment. By 1979, the number of SMEs had increased by 12% to over 3,200; the average employment in the sector remained the same.

According to the Ministry of Industries Industrial Survey, by the end of 1988 the number of SME establishments which have less than 100 employees increased to 4,241; this represents a 33% increase over the approximate 10 year interval. These SMEs represented 87% of the industrial enterprises, 34% of the total 1988 industrial employment, 27% of the value of 1988 industrial production, 19% of value added and 16% of the value of 1988 industrial exports. In absolute terms, the SME employing under 100 persons had total employment of 92,000, or now averaged 22 employees per enterprise.

MINISTRY OF COMMERCE
AND INDUSTRY
1988 Survey

[illegible]

ANNEX 2

THE MOROCCAN BANKING SECTOR

ANNEX 2.A

MOROCCAN BANKING ACTIVITY IN 1988

Name of Bank ----- (Public & Private)	Number of Offices -----	Offices in Casablanca %	1988 Total Assets DH Mil.	1988 Total Assets US\$ Mil.	Equity Capital DH Mil.	Equity/ Assets %	1988 Pre-tax Profit DH Mil.	Pre-tax Profit %	1988 Total Deposits DH Mil.	1988/1987 Deposits Growth %	1988 Total Loans DH Mil.	Deposits/ Resources Employed %	Short term Loans %	Medium term Loans %	Long term Loans %	Doubtful Loans %	Future Engagements vs 1988 Deposits %
Special Institutions of Government																	%
CNCA	320	1%	9,013	1,127	665	7%	119	18%	1,202	na	6,259	78	27%	77%	0%	7%	
BNDE	4	25%	5,554	694	210	4%	76	36%	92	na	3,499	67	2%	27%	73%	7%	
Major Commercial Banks																	
B/Credit Populaire	211	18%	27,325	3,416	269	1%	277	103%	21,836	11	7,259	33%	57%	28%	0%	5%	16%
BMCE 1/	na	na	18,046	2,256	241	1%	253	105%	10,175	9	5,065	50%	83%	11%	0%	5%	165%
BCM	121	30%	9,482	1,185	165	2%	204	124%	5,765	15	3,853	67%	82%	16%	0%	2%	51%
BMC1	73	32%	6,132	767	145	2%	231	159%	4,215	13	2,912	69%	76%	14%	0%	10%	86%
CdUM	na	na	5,735	717	125	2%	138	110%	3,932	11	2,570	65%	86%	12%	0%	2%	na
SGMB	78	38%	5,750	719	130	2%	139	107%	3,585	13	2,713	76%	74%	17%	0%	5%	113%
WAFABANK	69	26%	8,150	1,019	108	1%	142	131%	5,341	14	3,073	58%	79%	9%	0%	5%	125%
			-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Total Commercial Banks			80,620	10,078	1,183	1%	1,384	117%	54,849		27,445	50%					
									TOTALS:	56,143		37,203					

Notes: na is not available/not applicable

* includes allocated reserves

/1 BMCE is after profits distribution

Sources: 1987 and 1988 Company Data

1988 World Bank Staff Appraisal Report

1988 Report Bank al Maghrib

Annex 2.B

DATA PROFILES OF MAJOR BANKS (data obtained from 1988 annual reports)

1) BANQUE and CREDIT POPULAIRE du MAROC

Moroccan Government Capital - 100%

Total Number of Offices - 199

Casablanca	39
Country-wide	160

DH Million

Total Assets	27,325	
Capital -	269	
PreTAX 1988 Profit	127	- 47%

Deposits (current and term):	21,836	- 100%
Growth 11% over 1987		

Short-term loans:	4,152	- 57%
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Medium and long term loans:	2,019	- 28%
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Non-classified loans:	374	- 5%
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Doubtful loans	367	- 5%
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Total loans:	7,259	- 100%
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(33% of Deposit base employed)

Future Commitments * DH 3,484 million - 16% of Deposits

* down from DH 7,011 (36% OF DEPOSITS) at end of 1987.

2) BANQUE MAROCAINE DU COMMERCE EXTERIOR

Moroccan Capital - 100% GOVERNMENT

Total Number of Offices -
Casablanca -
Country-wide

DH millions

Total Assets	21,067	
Capital -	240	- 100%
a/TAX 1988 Profit	303	- 126%

Deposits (current and term):	10,175	- 100%
Growth 9% over 1987		

Short-term loans:	4,215	- 83%
Medium and long term loans:	549	- 11%
Non-classified loans:	66	- 1%
Doubtful loans	235	- 5%
Total loans:	5,065	- 100%
(50% of deposit base employed)		

Future Commitments	16,810	- 165% of Deposits
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3) CAISSE NATIONALE CREDIT AGRICOLE

Moroccan Government Capital - 100%

Total Number of Offices - 320

Casablanca 2

Country-wide 318

DH million

Total Assets	9,013
Capital (incl. Past Profits)	665
Fiscal 1987 Gross Profit	119 - 18%

Debt Capitalization:

Total (Incl Capital)	8,348 - 100%
Local Debts (1 year or less)	1,104 - 13%
Local Term Debts:	91 - 1%
Foreign Term Debt:	5,286 - 63%
Deposits	1,202 - 14%

Short-term loans:	1,688 - 26%
Medium and long term loans:	4,840 - 74%
Participation	1 - 0%
Doubtful loans	(409) - 6%
Total loans:	6,529 - 100%

(78% of available funds employed)

4) BANQUE NATIONALE POUR LE DEVELOPPEMENT ECONOMIQUE

Capital - 48% Government (Controlled)

Moroccan Private - 22%

Foreign - 30% Capital Participation by the following:

- o Société Financière Internationale - Paris;
- o Banque Arabe et Internationale d'Investissement - Paris;
- o Union des Banques Arabes et Françaises (UBAF);
- o Société Financière Allemande (DEG);
- o Kuwait Investment Company (SAK);
- o Arab Investment Company (TAIC);
- o Bobel NV -Suisse;

Total Number of Offices - 4

Casablanca	-	1
Country-wide	-	3

DH millions

Total Assets	5,554	
Capital -	210	
1988 Gross Profit	82	- 39%
Before Amortization		

Debt Capitalization:		
Total (Incl Capital)	5,192	- 100%
Local Term Debts:	1,357	- 26%
Foreign Term Debt:	2,657	- 51%
Debt Growth 15% over 1987		
Short-term Debts	940	- 18%

Assistance to the Economy:

Short term credits:	82	- 2%
Medium term loans	934	- 27%
Long term loans	2,565	- 73%
Stock Participation:	159	- 5%
Doubtful loans	(235)	- 7%
Total loans and credits:	3,499	- 100%
(67% of available funds employed)		

Outstanding
No. Loans

13
1,547
467
44
2,071

5) BANQUE COMMERCIALE du MAROC

Moroccan Private Capital - 50%
Moroccan State Capital (SNI) - 5%
Banque Nationale de Paris - 30%
(Crédit Industriel et Commerciale)
Deutsche Bank - 15%

Total Number of Offices - 121

Casablanca - 36
Other Cities - 85

DH Millions

Total Assets	8,578	
Capital -	356	
Pre Tax 1988 Gross Profit	207	- 58%

Deposits (current and term):	5,765	- 100%
Growth 15% over 1987		

Short-term loans:	3,150	- 82%
Medium and long term loans:	604	- 16%
Non-classified loans:	36	- 1%
Doubtful loans	63	- 2%
Total loans:	3,853	- 100%
(69% of deposit base employed)		

Future Commitments	2,960	- 51% of Deposits
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6) BANQUE MAROCAINE DU COMMERCE INTERIOR

Moroccan Private Capital - 50%
Moroccan State Capital (SNI) - 5%
Banque Nationale de Paris - 45%

Total Number of Offices - 73

Casablanca - 23
Other Cities - 50

DH Millions

Total Assets	6,132	
Capital -	145	
Pre Tax 1988 Gross Profit	113	- 78%

Deposits (current and term):	4,215	- 100%
Growth 13% over 1987		
Short-term loans:	2,201	- 76%
Medium and long term loans:	407	- 14%
Non-classified loans:	7	- 0%
Doubtful loans	297	- 10%
Total loans:	2,912	- 100%
(69% of deposit base employed)		

Future Commitments 3,619 - 86% of Deposits
BMCI - Investment Subsidiary: MAROC INVESTISSEMENT

7) SOCIETE GENERALE MAROCAINE DE BANQUES

Moroccan Private Capital - 90%
Société Générale de Banques - (French) 36%
Suisse Credit Bank - 39%
Société Marseilles du Crédit - 10%

Total Number of Offices - 78

Casablanca - 30
Country-wide 48

DH millions

Total Assets	5,750
Capital -	130
PreTAX 1988 Profit	138 - 106%

Deposits (current and term):	3,585 - 100%
Growth 13% over 1987	

Short-term loans:	2,007 - 74%
Medium and long term loans:	468 - 17%
Non-classified loans:	98 - 4%
Doubtful loans	140 - 5%
Total loans:	2,713 - 100%
(76% of deposit base employed)	

Future Commitments 4,049 - 113% of Deposits
SGMB - Investment Subsidiary: Investima - Capital DH 20 million

8) WAFABANK

Moroccan Private Capital - 82% (Group Kittaney - 59%)
Bank INDO-SUEZ (French) - 18%

Total Number of Offices - 69

Casablanca - 18
Country-wide 51

DH millions

Total Assets	8,150
Capital -	106
PreTAX 1988 Profit	173 - 163%

Deposits (current and term):	5,341 - 100%
Growth 14% over 1987	

Short-term loans:	2,422 - 79%
Medium and long term loans:	289 - 9%
Non-classified loans:	200 - 7%
Doubtful loans	157 - 5%
Total loans:	3,073 - 100%
(58% of deposit base employed)	

Future Commitments 6,658 - 125% of Deposits
WAFABANK - Investment Subsidiary: * Compagnie Financière
d'Investissement C.F.I. - Capital DH 100 million



ANNEX 2.C

COMMENTS ON BANKS

BANQUE AND CREDIT POPULAIRE DU MAROC (BCP)

The largest of the commercial banks in terms of assets (DH 27,325 million at end of 1988), BCP is also the largest by virtue of its deposit base (DH 21,836 million) which is growing at 11% per year. BCP was a major depository of T.M.E. funds from abroad, until the new Workers Bank was formed in 1989. TME deposits earn substantially higher rates than domestic deposits, but are not includable in the loan lending base. As a result, only 32% of BCP's deposit base was used for loans outside of the required investments in government securities. With its branch banking system, (199 offices throughout Morocco at the end of 1988), BCP accounted for over 50% of the SME financing under the World Bank's two SME projects, and has contracted for DH 96 million or (7%) of the WB's new 1990 \$170 million Export industries Loan (See Annex 6.A for a discussion of World Bank projects in Morocco).

BANQUE MAROCAINE DU COMMERCE EXTERIOR (BMCE)

The second largest of the commercial banks in terms of assets (DH 18,046 million at the end of 1988), BMCE is also second largest in terms of deposits (DH 10,175 million) which are growing at 9% per year. BMCE is the leading bank in Morocco in international trade finance with offices in Paris and the Tangier free-trade zone, and planned in Madrid and Brussels. BMCE maintains a high ration of liquidity, with only 50% of its deposit base used for loans. BMCE accounted for the majority of the first WB Export Finance Project, and has contracted for DH 320 million, or 24%, of the 1990 Export Industries Loan.

CAISSE NATIONALE CREDIT AGRICOLE (CNCA)

The CNCA is the specialized institution for lending to the agricultural sector, including agri-business. It has the largest number of branch offices of any Moroccan bank, (320 at the end of 1987). CNCA's capitalization is primarily from foreign term debt (63%) and local debt issues (13%). All of the other banks are required to invest at least 3.5% of their sight deposits in CNCA bonds. Of total available funds, CNCA used 78% in loans. To increase lending reserves, CNCA has started a program to attract depositors through its branch system. CNCA is included in the new World Bank Export Industries Loan.

CREDIT DU MAROC (CDM)

One of the smaller commercial banks in terms of assets (DH 5,175 million at the end of 1988), CDM's deposit base (DH 3,932 million) is growing at 11% per year. In 1988, CDM used 65% of its deposit base for loans. CDM has had conservative policies towards commercial and medium-term lending, and is not active in investment lending. To build up its project lending activities, CDM has contracted for DH 40 million or (2.9%) of the World Bank's 1990 Export Industries Loan.

BANQUE NATIONALE POUR LE DEVELOPPEMENT ECONOMIQUE (BNDE)

BNDE, Morocco's industrial development bank, is controlled through the government's 34% ownership of capital. Although it now is starting to take deposits, BNDE's source of funds is debt (now 81% of assets), consisting of loans from foreign donors, (68% - DH 3,052 million) including the World Bank/IFC and the ADB; and domestic bonds (32% - DH 1,467 million). Moroccan commercial banks are required to maintain a minimum of 5.5% of site deposits in either medium-term rediscountable loans to industry, (loans approved by BNDE) or to meet this requirement through the holding of the equivalent amount in BNDE bonds. About 50% of BNDE's loans are to industrial manufacturing, and the remainder are to transportation, services, leasing, mining, and energy. BNDE will take DH 400 million (29%) of the World Bank's 1990 Export Industries Loan. BNDE requires about 365 million per year to repay its foreign loans plus another DH 365 million/year for interest over the next five years.

BANQUE COMMERCIALE DU MAROC (BCM)

BCM is the third largest of the private commercial banks (DH 8,578 million at end of 1988) in terms of assets. BCM's deposit base is growing at 15% per year. BCM uses 69% of its deposit base for loans, with 16% of its loans medium-term in duration. BCM has a very low percentage of doubtful loans (2%). Among entrepreneurs BCM is considered dynamic in financing investment loans. To build up its longer term lending activities, BCM has contracted for DH 200 million or (15%) of the WB Export Industries Loan.

BANQUE MAROCAINE pour le COMMERCE et l'INDUSTRIE (BMCI)

BMCI's deposit base is growing at 13% per year. BMCI is the originator of the Jeune Promoteur loan program. 69% of BMCI's deposit base is used for loans, with 16% of its loans medium-term in duration. Among entrepreneurs, BMCI is considered active in financing investment loans, with future commitments for up to 86% of its deposit base. To build up its project lending activities,

BMC I has contracted for DH 96 million or (7%) of the WB Export Industries Loan.

SOCIÉTÉ GÉNÉRALE MAROCAINE DE BANQUES (SGMB)

In terms of assets, SGMB is one of the smaller of the private commercial banks (DH 5,570 million at end of 1988), with its deposit base is growing at 13% per year. SGMB is affiliated with the Société Générale Banks in France, and still draws its clientele from its francophone interests. 76% of SGMB's deposit base is used for loans, with 17% of its loans medium-term in duration. SGMB is aggressive in seeking loans, future commitments being 113% of deposits. However, entrepreneurs say that of all banks, SGMB expects the entrepreneur or financial consultant to prepare the most of the project loan financing request, with consultation with its local branch managers (78 offices at end of 1988). SGMB has contracted for DH 72 million or (5%) of the WB Export Industries Loan.

WAFABANK

In terms of assets, WAFABANK is the fourth largest of the private commercial banks (DH 8,150 million at end of 1988), with its deposit base is growing at 14% per year. WAFABANK uses only 58% of its deposit base for loans, with only 9% of its loans medium-term in duration. However, WAFABANK is aggressive in seeking loans, future commitments equalling 125% of deposits. WAFABANK is most active in export financing and leasing. WAFABANK has contracted for DH 136 million or (10%) of the WB Export Industries Loan.

ANNEX 2.D

FINANCIAL ENVIRONMENT

(1) Banking Sector

The banking sector in Morocco consists of a central bank - Banque al Maghrib (BM); fifteen commercial banks with up to 49% foreign participation; and two savings institutions, (Caisse d'Epargne Nationale and Cheques Postaux) controlled by the Central Bank. There are five Government controlled specialized institutions: CDG-Caisse de Depots et Gestion, CMM-Caisse Marocaine des Marches, CNCA-Caisse National de Crédit Agricole, CIH-Crédit Immobilier et Hôtelier, and BNDE-Banque Nationale de Développement Economique.

The fifteen private and commercial banks are not all of equal importance. The major private banks, and those Government banks which deal with the public in terms of deposits, are individually profiled in Annex 2.B; they are the BMC, the SGMB, the BMCI and WAFABANK. Crédit du Maroc is often included in this grouping. The BNDE considers itself to be a private bank, although it is government controlled through the nomination of all its senior officers. The BNDE has outside capital from various international lending agencies, which together with private Moroccan capital exceeds 50%.

The Groupement Professionnel des Banques du Maroc (GPBM), to which all the Moroccan banks are required to belong, is the official banking association. Through this association, the views of the different private banks can be expressed. Two of the members of the association sit on a permanent advisory commission, which advises the Ministry of Finance. The present head of the GPBM, and chief delegate to the advisory commission is the Head of the government owned bank Banque Marocaine du Commerce Exterior. The deputy head of the GPBM is part of a permanent secretariat for the association, which is headquartered in Casablanca.

(2) Banking Sector Image

In the context of Moroccan economic development, the banking sector has a strong public image of success. This contrasts sharply with the many business and business related institutions in the other economic sectors that are striving to survive and whose fortunes rise and fall with changes in internal and external economic conditions.

This strong image for the banking sector has been a deliberate achievement. The number of private banks at independence totalled over 50, when the capital requirement for a bank was only DH 1 million; the imposition of additional capital requirements by the GOM reduced the number of private banks to the present 15. It has

been predicted by the GPBM that with the newly required raising of capital requirements to DH 100 million to be effected by 1990, the total number of banks will be reduced further, with mergers and regrouping among the smaller banks.

Central Bank policy to keep the Moroccan private banking sector strong has also mandated that only certain types of bank loans will qualify for rediscounting at the bank; this is referred to as the "encadrement" system. These loans are in the consumption sector and are closely surveyed by the BM. Loans for export and investment are excluded from "encadrement". At the present time the "encadrement" is fixed at about 45% of the banks' resources. It has been customary for the BM to raise this percentage each year gradually, by about 3% to 7% maximum. Therefore the commercial banks, in order to preserve liquidity, must watch their total lending relative to their deposits.

The lending rate in 1988 varied from the low of 33% for the Bank/Crédit Populaire (which is the largest bank, and has the greatest resources) to a high of 65/75% for the more aggressive private banks, which individually only approach one-third the size of the Bank Populaire.

Another means of assuring a strong banking system is the regulation of the interest rates that banks pay and that they charge. With regulated rates, there is no real competition in the banking system. Margins between the present level of inflation, the fixed interest rates for deposits, and the interest rates on short and medium term loans permit the banks to earn substantial sums relative to their assumed risk.

(3) Banking Sector Controls

Traditionally in Morocco the responsibility and control of the credit and monetary policies for the economy rests within the government; the Minister of Finance formulates and controls those policies. In the past, when the Minister of Finance has changed, the financial and monetary policies have also changed.

The Banque al Maghrib (BM) also plays a significant role in formulating Morocco's Monetary Policy, through its membership on the Committee on Credit and Financial Markets. This committee is presided over by the Ministry of Finance; it decides upon and controls all major banking and credit policies. The Ministry of Finance establishes the regulations; the BM is charged with their execution. BM's control of the private banking sector is based on the Banking law of April 21, 1967, with the modification regarding ownership imposed by the 1975 Moroccanization law.

Banque al Maghrib fixes ceilings on credit by commercial banks, mandatory asset/liability ratios, the maximum interest rates by

types of credit, interest rates paid on deposits, reserve and minimum equity requirements, as well as the maximum loan exposure permitted to individual clients.

The following is a partial list of the banking controls to protect depositors:

- Minimum capital requirements (now DH 100 million)
- Liquidity ratios
- Solvability ratio
- Maximum amount of risk, loan guarantees required
- Loan limits for individual engagements, and those for banking consortiums with regard to clients

To exercise monetary policy and to control the amount of credit in the economy, the BM establishes quantitative controls:

- "Encadrement" of loans and credit
- Interest rate for credits discounted at BM
- Monetary reserves
- Obligatory investments in government institutions

The "encadrement" of credits establishes the types of credits that are allocated to different clients and sectors, as well as those that are discountable at the central bank and satisfy reserve requirements.

Current interest rates on loans vary between 12 and 15%. Interest rates on local currency deposits and other resources vary from 0% to 12%, depending on their nature and their maturity.

The Ministry of Finance and the BM establish the percentage of "sight deposits" that must be converted to Moroccan Government treasury instruments, as well as required investment in the preferential credit and bonds of specialized Government financial institutions that must be held by each of the commercial banks.

Foreign currency holdings are a monopoly accorded only to the BM, therefore all foreign transactions are strictly monitored by the central monetary authority. Moroccan nationals and Moroccan businesses are not permitted to retain foreign exchange; they must surrender foreign exchange within a limited time period. Bankers feel that this is a measure imposed to curb capital flight. Although there is no documentation of proof, many feel that there has been capital flight from Morocco, since the liberalization of imports.

In the realm of qualitative controls, the BM regulates the banks and the accord of credit in the following four categories:

- Exemptions from "encadrement" of credit, to promote special economic sectors, such as export industries and tourism;

Annex 2.D

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- Preferential refinancing of loans and credits to the same end as the exemptions above;
- Surveillance on certain credits to certain groups, families, industries and stock (issuing) companies; and
- General recommendations on credit policy to be followed by banks.

Finally, the government imposes financial ceilings, in order to preempt the commercial banks' ability to finance the government's budget.

A. Controlling Inflation

Credit policies in Morocco are used by the Central Bank and the Ministry of Finance as a means of regulating economic activity. They also have a direct effect of the speed and the type of economic development that the government wants to pursue.

For example, during 1988 the rate of expansion of the money supply by the BM was fixed at 5% through April, raised to 6% for the period until just before the end of the year, and increased to 7% on December 21st. The limitation of credit has kept the monetary supply below the demand, and controlled any inflationary pressures in the economy, so that the inflation rate for the past two years has not exceeded 4%.

B. Controlling Economic Development

Braking the economy is accomplished by the Central Bank through the encadrement system. Only loans that can be rediscounted can be used to maintain bank liquidity in the case of potential demand from their depositors.

Under various economic development incentive programs, the loans that qualify for encadrement are designed to benefit certain sectors of the economy. Since the banks are encouraged to lend to certain sectors, the BM also applies a guarantee of the government with regard to the risk of eventual default.

(4) Lending Practices

It has already been stated that in terms of supply and demand, there is more demand for credit than there is supply. This is a result of the monetary controls put in effect by the Central Bank. Because of the desire to keep credit restricted, the Banks only

loan from 33% to a maximum of 76% of their deposit resources to the private sector. From a global perspective, the total use of deposit resources approximates 53%. (Annex 2.A)

Almost universally, the banking sector views lending to new clients as involving considerable risk. As in most of the world, Moroccan banks prefer that their loan clients start their relationship with the bank through the maintenance of accounts; only after some period of normal account transactions, should they approach the bank with a proposal for a loan. Often, first loans to a client are made on a short term basis, in the form of a permitted overdraft. The business relationship with this first level credit approval source is crucial to credit access, due to the bank's internal structure.

In discussions with bankers as to whether a preview could be given of the bank's possible loan approval, before a project file is completed, it was indicated that this was theoretically possible. However, because of banking structure, the granting of credit is a hierarchical affair. Therefore, all the documents give the banker the final overview judgement of whether the loan will be approved or not.

Bankers suggested that it is possible for an entrepreneur to learn the bank's present perception of loans for investment in certain economic activities, including that of his project. This may not be of much value to an individual entrepreneur. While there is limited dispersed authority in the banks to commit funds, responsibility for medium term loan commitments rests with the final loan committee, at the level of the home office of the bank.

Commercial banks can profit by concentrating on the short term credit sector, because of the difference between the interest rates the banks pay for deposits, and those that they can charge for loans. The extra one percent permitted for medium-term credits, in relation to the total interest rate spread, does not compensate for the additional risk assumed. Private commercial banks have a range of between 74 and 83% in short term credits (See Annex 2.A), generally defined as less than 1 year; these same banks show no significant involvement in long-term credits (over 5/7 years), and only a range of 9 to 17% in the medium-term credits (roughly 2 to 5 years).

Only the public sector banks, which are government policy directed, get seriously involved in medium-term and long-term credits. Bank/Credit Populaire, which is the country's largest financial institution in terms of assets, has 28% of its loans in the medium-term sector, approximately the same as the BNDE. The largest lender in the medium-term loan sector is the Crédit Agricole, with 77% of its portfolio committed in the medium-term. BNDE, which has been the beneficiary of foreign loans to grant investment credits to the industrial sector, is largely involved in long-term lending

- i.e. over 7 years at 73% of their portfolio.

Even with the fixed rates, the Moroccan financial environment reflects competitiveness among the various private banks, as well as among public banks which lend in the same sector. A method of quantifying this aggressive pursuit of banking business is to analyze the rate of growth of each bank's deposits, the breadth of distribution of their branch bank system, and to review the "hors bilan" or non-balance sheet future loan engagements, relative to their deposit base.

In future credit commitments, the BMCE leads the other banks, due to involvement with the import and export sectors. While the larger private commercial banks presently rank in terms of assets, from largest to smallest - BCM, BMCI, SGMB and WAFABANK, judging from their future commitments and deposit growth, it is safe to predict that they will close the size gap.

As reflected in their 1988 annual reports, the major banks in the private banking sector have shown annual pre-tax gross profit rates sometimes in excess of 100% of their paid-in invested capital.

Commercial banks the world over base their resources on the amount of their deposits, rather than their invested capital, (including sight, short and long-term deposits). In Morocco, banks do not employ a multiplier in their lending to the economy, as is customary in the American system, which is based on a Federal Reserve to guarantee liquidity, and a separate deposit insurance program.

Moroccan banks account for doubtful and "contentious" loans in excess of their paid-in capital; these approach the standard 5% considered to be a maximum for a well run banking institution under normal operating conditions. This is true, despite the fact that the banks can select their loan portfolio from among the most credit-worthy; insist on a multiple of the loan amount as collateral against purposeful defaults; and lend only on a short-term basis.

The problem of doubtful loans will continue because the banking sector in Morocco is based on low-risk, asset value lending, not on the potential cash flow from the investment. The Moroccan banking system emphasizes risk aversion; the banker is perceived as good when lending risk is eliminated altogether. Cash flow lending does not eliminate risk, in the Moroccan banker's eyes, and is therefore to be avoided.

(5) Capital Markets Sector

There is a capital market at the Casablanca stock exchange, "the Bourse", where shares of private companies are traded. Its role is

very limited and the number of shares traded has been declining year by year. For further information on the capital markets in Morocco, refer to two capital markets studies (Morocco Financial Markets, Arthur Young and Company, December 1986, and The Financial Sector of Morocco: An Evaluation of Policy Changes since 1984 and Proposals for Further Development, Price Waterhouse and RR Nathan Associates, November 1989.)

(6) Other Sources of Finance

A. Bank Investment Company Affiliates

Several of the private banks have formed investment company affiliates; they use these investment subsidiaries to hold participation or shares which the bank acquires along with its normal lending program.

The most aggressive of the bank affiliated investment groups is the Compagnie Financière d'Investissement CFI, controlled by the WAFABANK group, which has raised DH 100 million (\$ 12.5 million) in capital. The director indicated that the eventual goal was to seek participation from other groups, such that WAFABANK's share would be reduced to no more than 40%. At this time, the BCM and PARTHENA INVESTISSEMENT (a subsidiary of Bank INDO-Suez of France which is also a participant in WAFABANK) are other shareholders. The CFI's activities have been oriented towards the refinancing/restructuring of enterprises in financial difficulties. CFI took over Finaboid, an enterprise which produces plywood and grows commercial timber stands. In addition, CFI reported that numerous projects presented by various foreign enterprises are also being studied. In total, CFI holds a portfolio (or has projects) for about one dozen enterprises.

While it was acknowledged that there is not a need for outside investment capital, unless it is for imported machinery and equipment, seed capital for new entrepreneurs is needed. Bank investment companies do not participate in equity shareholdings unless the entrepreneur who is promoting the project brings a substantial capital contribution.

The biggest disincentive to risk investments is the ready availability from the BM and the Treasury of Government bonds at 12% for 5 years tax free. By definition the only risk to any investor who is obligated to hold his funds in Durham is inflation. Since inflation has been held to less than 4%, the real rate of return is 10%, or 17% at an effective 43% tax rate. Therefore alternate equity loans and investments after a 43% tax must be in excess of 20% to 25% per year to compensate for risk taken. This is possible for a principal, but it is dubious for minority shareholders.

B. Donor Investment Funds

There are several new lines of credit that are now functioning which purport to offer equity capital to new ventures. These include those of the European Investment Bank, the Belgians, the French and others (including ones from Italy and Spain) now in negotiation. These credits are to provide for equity capital funds to be made available to Moroccan entrepreneurs, particularly those who are participating in a joint-venture with a national of the country from which the lines of credit emanate. The joint-venture can be only technical assistance or even sub-contracting orders. The credits are being made available through different banks that sign up, including the BMCE. (The Belgian credit is being administered by the ODI.)

By late November 1989, these credits had generated significant interest according to the BMCE. However, with approval required by the donor organization, few loans had as yet been granted under these lines, especially in the cases where there were no foreign partners involved with the Moroccan entrepreneur.

Therefore there is little experience in how these credits will work in practice. Granting of these credits is still under final approval of the donor bank or other agencies. The information available at the banks on the various lines of credit is continued in Annex 8.

The possibility of a similar equity loan program for joint venture credits with American small businesses would allow smaller American companies to participate with Moroccan nationals through the provision of technical and other assistance, without needing to invest directly. This type of joint-credit, administered through the local private banks, and funded at least in part by USAID, would encourage a different level of potential American joint-venture partner to participate. The actual design of such a credit arrangement should occur after there is a chance to observe the effectiveness of those already in place.

ANNEX 3

THE MOROCCAN TAX SYSTEM

ANNEX 3.A

TAXES REQUIRED WHEN STARTING A BUSINESS

On the registered capital:

0.5 % of the equity capital of the business (minimum DH 1000)
unless at least 34% of the capital brought by an investment
group or investment bank, when it is therefore reduced to 0.25
% of equity capital of the business

On the Buildings being used:

2.0 % on the first DH 20,000
3.5 % on the value over DH 20,000

On commercial funds or funds lend by the clients:

1.5 % on the first DH 20,000
3.0 % on the value over DH 20,000

On industrial land:

Tax free if Investment is passed by the Ministry of Industry
5.0 % on transfer of land, if no approval sought

Taxes which are due on creation or an extension of an enterprise:

- Notary Tax - (Registrations)

1.0 % on first DH 5,000
0.5 % on second DH 5,000
0.2 % over DH 10,000

- Urban Tax - (Real estate property tax)

13.5 % on the rental value of the building, land etc

- Tax to the Municipal Court - (Magistrate)

Within the urban center:

10.0 % on the rental value of the property

Outside the urban center:

6.0 % on the rental value of the property

- Business Licence Tax - (Patente)

10.0 % on the rental value of the property and machinery
* note the tax is often varied proportional to the business

ANNEX 3.B

TAXES REQUIRED WHEN OPERATING A BUSINESS

Income Taxes

- "Impot sur les Sociétés" (IS)

40% on the Reported Profits or a minimum tax of 0.3% on Net sales volume up to DH 1 million plus 0.5% on sales from DH 1 million to DH 10 million plus 0.75% on sales in excess of DH 10 million

- "Taxe sur la Valeur Ajoutée" (TVA)

Imposed at different rates according to the levels of the manufacturing process:

7 % for food, human & animal, basic materials, medicine, water, electricity, cooking gas, bicycles, matches
12 % for banks, doctors, telephone, telex

14 % for most intermediate products, hotels, transport

19 % for most finished products

30 % for luxury products, automobiles over 1.8 cm³, beer, alcohol, furs, perfumes, etc.

- "Participation a la Solidarité Nationale" (PSN)

This is special tax to develop the southern areas of Morocco.

10 % surcharge on the I.S., with a minimum of:

- o DH 1600 on companies with sales volume up to DH 1 million; or
- o DH 3000 on companies with sales over DH 1 million

- Income Taxes on salaries/wages collected by employer

A graduated tax imposed on the salary/wage by increment with rates of 12%, 17.5%, 30%, 36%, 40%, 45%, 52% and 60%
From: 12% up to DH 21,000 (plus 4 days salary PSN)

0% over DH 300,000 (plus 30 days salary PSN)

This represents an effective Income Tax of 41% + PSN on \$37,500.

- Income Taxes paid directly by persons not employed

A graduated tax imposed on earned income by increment rates of 0%, 3%, 6%, 10%, 17%, 22%, 25%, 30%, 40% and 45%

From: 0% up to DH 24,000 (plus 4 days income PSN)

3% up to DH 50,000 (plus 5 days income PSN)

30% over DH 300,000 (plus 30 days income PSN)

This represents an effective Income Tax of 16% + PSN on \$37,500.

45% over DH 750,000 (plus 30 days income PSN)

This represents an effective Income Tax of 28% at \$95,000

ANNEX 3.C

SAMPLE CALCULATION OF A BUSINESS OPERATING TAX

Example: Sub-contractor - Cut and sew textiles

	DH 000		\$000
Sales:	12,000	100%	1,500
Cost of Production:			
Raw materials	3,040	25%	380
Salaries and Wages (25 total)	360	3%	45
Housing Provision for Personnel	300	2%	37.5
Other expenses (transport, etc)	480	4%	60
Depreciation & Amort. (12 million)	1,200	10%	150
Interest (DH 12,000 loans)	1,620	14%	202.5
Profit:	5,000	42%	625
Reconstruction for Tax Purpose:			
Profit	5,000	100%	625
Actual Housing provision expended +	300		37.5
Total Taxable before deductions	5,300		662.5
Less -Permitted Housing Expense 3%	159		20
Net Taxable Income	5,141		642
"S.I." Tax @40%	2,056	41%	257
Alternate Calculation for Minimum Tax:			
Sales:	12,000		1,500
Employment Incentive Subsidies *	125		15
Total	12,125		
* Note: one time payment DH 5,000 each			
First two levels up to DH 2 million	48		
DH 10 million surplus @ 0.75%	75		
Total Minimum	123		15.4
Credit of Minimum of DH 100,000	-100		12.5
Tax Surcharge for Solidarity @10% to develop the southern regions	206		25
TOTAL TAX	2,162	43% effective rate	

10% due before February 1st, half of the remaining due before April 1, the remainder due before June 1.

The foregoing Tax Calculation ignores the potential TVA tax of 19% which is not collected on exports. If merchandise produced is destined for the local market, then the TVA tax is collectable. At present, many prices in the market are quoted without including TVA, at least at the current product level. The seller adds the tax onto the sales invoice. TVA is billed and collected separately at the present time.

ANNEX 4

THE MOROCCAN INVESTMENT CODES

ANNEX 4.A

CONDITIONS D'ACCES AUX DIFFERENTS CODES D'INVESTISSEMENTS PMI/NON PMI

CODE ARTISANAL	<ul style="list-style-type: none">. Investissement (I) max 5 Millions DH. Investissement par emplois créés inférieur à 5000 DH. Si I 5 Millions alors convention avec l'Etat pour obtention des avantages du code
CODE INDUSTRIEL	<ul style="list-style-type: none">. PMI I/emplois créés 70.000 DH. I max 50 Millions DH. Entreprise Industrielle I 50 Millions DH dans ce cas convention avec l'Etat pour obtention des avantages
CODE MARITIME	<ul style="list-style-type: none">. Ent.reprise (pêche cotière, agriculture, exploitation, madragage, cooperative) I 30 Millions DH. Entreprise pêche hauturière I 70 Millions DH. Entreprise d'Armement I 100 Millions DH
CODE MINIER	<ul style="list-style-type: none">. Entreprise minière ou à caractère minier 300.000 DH I 3 Millions DH
CODE IMMOBILIER	<ul style="list-style-type: none">. Selon le caractère de l'activité sans limitation du Montant d'Investissement.
CODE TOURISTIQUE	<ul style="list-style-type: none">. Selon le caractère de l'activité sans limitation du Montant d'Investissement.
CODE FORMATION PROFESSIONNELLE	<ul style="list-style-type: none">. Qualification professionnelle reconnue par diplôme, attestation ou autre sans limitation du Montant d'Investissement.
CODE AGRICOLE	<ul style="list-style-type: none">. Toute activité agricole, tout équipement spécifique au secteur

EVALUATION APPROXIMATIVE DES DELAIS NECESSAIRES
A L'OBTENTION EFFECTIVE DE CERTAINS AVANTAGES DU CODE DES
INVESTISSEMENT INDUSTRIELS

ANNEX 4 - B page 1

CONTRAINTES DE DELAIS	DELAIS MAXIMUM	PROCEDURES D'OBTENTION DES AVANTAGES DU CODE - PMI -	PROCEDURES D'AGREMENT (VISA CONFORMITE) PMI	
Remboursement du droit d'importation/MOBE	La 1ère demande de remboursement après attestation de contrôle du Ministère de l'Industrie: installation effective et utilisation des M.O.B.E. Délai maximum de 120j après dépôt de la demande de remboursement Certificat délivré par le service de la T.C.A précisant le C.A. DE l'exercice fiscal écoulé (délai = durée d'un exercice fiscal 12 mois maximum)	4 mois+ délai de contrôle du Ministère de l'Industrie	A=Formulaire -type établi par l'Administration en 3 exemplaires B-1 demande par lettre recommandée + accusé de réception: +1 ampliation de la déclaration d'utilisation MOBE importé+1 acquis à caution temporaire pour les produits importés entrant dans la fabrication locale des MOBE. + originaux ou duplicata certifié conforme des quittances des droits et taxes perçus + une facture du fournisseur étranger + une facture du revendeur de matériel importé + une facture du fabricant local du matériel	1-Dépôt du projet Joindre les listes de matériels MOBE en 20 exemplaires selon modèle-type 2-Examen du dossier dans les 30 jours 3-Réponses Ministérielles .transmission au 1er Ministre .transmission à l'entreprise . transmission aux services intéressés dans le programme d'investissement 4.La non-formulation de refus écrit entraîne une mobili- sation du promoteur et une perte de temps considérable
Remboursement de la taxe spéciale	Attestation de contrôle du Ministère de l'Industrie (compris dans les 12 mois maximum pour obtenir certificat T.C.A.)	12 mois + 4 mois	A+B+ 1 amplification de chacune des déclarations d'exportations +copies de factures de vente ou nomm des destinataires + visa des sources de douanes + 1 récapitulé sur des relevés distincts +1 certificat des services de la Taxe sur le Chiffre d'Affaires attestant le CA réalisé pendant l'année +1 certificat délivré par le Ministre de l'Industrie attestant l'installation MOBE conforme du PI +1 demande chaque année de remboursement pendant les 7 années consécutives	
Exonération de la taxe spéciale	Notification du visa de conformité Délai maximum de 30 j après dépôt de demande d'exonération du service T.P.S.	30 jours	-1 formulaire établi par la Direction des Impôts du Min.de Finances -Dépôt de la demande par le L.R.+A.R/contre récépissé au service de la T.C.A. -Factures à rembourser + récapitulatif . référence du programme d'invest. . référence aux factures + no. identification + no. et adresse du fournisseur . nature exact MOBE+taux et montant des taxes sur factures . date, la référence et modalités de permis	
Ristourne d'intérêt	immédiate dès notification du visa de conformité 12 mois après notification du visa de conformité: 1ère 1ère demande	immédiate		

Prime à la création d'emplois	2 mois après dépôt de la demande, le Ministère de l'Industrie établit la liste des emplois éligibles à la prime et la transmet au Ministère des finances	12 mois	<ul style="list-style-type: none"> - Demande LR+AR au MCI une par an, 12 mois après notification de visa - Présentation de la liste nominative certifiée conforme par le Directeur de la CNSS - Transmission au Ministère des Finances - Dépôt d'une requête de remboursement (voir procédures A+B)
		+	
		2 mois	
	Le Ministère des finances verse la prime 4 mois au maximum après la transmission	4 mois soit 18 mois	
Versement de la partie du coût du terrain prise en charge par l'Etat	En zone IV: dépôt de la demande de versement dès le commencement de la réalisation du programme d'investissement. ou le Ministère de l'Industrie transmet au Ministère des Finances pour versement	4 mois ou 6 mois	<ul style="list-style-type: none"> - Dépôt d'une requête de remboursement (voir procédures A+B) (Demande type prime d'aide à la création d'emploi)
Versement de la partie du coût du terrain prise en charge par l'Etat	En zone III: dépôt de la demande de versement 12 mois après notification du visa de conformité		<ul style="list-style-type: none"> - Attestation délivrée par Ministère de l'Industrie - Ampliation transmise au 1er Ministre et au Ministère des Finances
	Versement après vérification des conditions de création d'emploi (2 mois) et transmission au Ministère des finances (4 mois)	12 mois	
		+	
		2 mois	
		+	
		4 mois	
		soit 18 mois	
Constatation de l'utilisation de la provision pour investissement en Zone III ou IV	Attestation délivrée par le Ministère de l'Industrie: délai maximum 30 jours après la demande	30 jours	
Primes d'équipement pour éco. énergie eau et préservation de l'environnement (12 mois)	Demande de versement de la prime adressée au Ministère de l'Industrie	12 mois	<ul style="list-style-type: none"> - Dépôts ou envois des demandes types (même procédure A+B) - l'Administration garde un large pouvoir d'application selon les cas, les conditions sont facultatives à impératives (voir tableau de registres)
	dès réalisation des objectifs pour lesquels la prime est octroyée	+	
	(12 mois)	4 mois	

ANNEX 5

PROCEDURES TO ESTABLISH AN SME

ANNEX 5.A

SME LEGAL FORMATS

The Moroccan legal system offers a broad choice of "incorporation" options to the entrepreneur/investor. Six business formats can be selected, each with its own advantages and disadvantages in the manner in which it is legally constituted. Little information is available from Banks, Ministries and Fiduciaries regarding the suitability of corporate format to the type of business activity envisioned by the entrepreneur.

The legal formats may be categorized into two groups: Sole/Group Partnerships, and Stock Companies of Limited Personal Liability.

Group I: Sociétés de Personnes (Sole or Group Partnerships)

- **"Société en non collectif" (Partnerships)**
The individual's holdings are liable in perpetuity.
Taxes are owed by the individual.
Managed by one or more of the partners or an outsider.
- **"Société en Commandite Simple" (General Partnership)**
Composed of one or more partners completely responsible for engagements taken by the company;
Other partners have limited responsibilities.
Taxed at the same rate as a S.A.
- **"Société en Commandite par Action" (Limited Partnership)**
Responsibility is limited to amount invested in shares.
Management's holdings are liable in perpetuity.
- **"Entreprise Individuelle" (Sole Proprietorship)**
Entrepreneur is the only one responsible.
Holdings of entrepreneur are liable forever.
Taxed on a non-salaried basis.
No written documentation for legal entity is required.

Group II: Sociétés de Capitaux (Stock Companies of Limited Personal Liability)

- **"Société à Responsabilité Limitée (SARL)" (Incorporated Limited Partnership)**
Composed of two or more associates (up to 50).
Minimum equity capital is DH 10,000.
Associates are responsible up to amount contributed.

Manager selected from among associates.

- **"Société Anonyme (SA)" (Corporation)**
Composed of minimum of seven associates.
Minimum share cost is 50 DH.
Responsibility of shareholder is limited to amount invested.
At stage of its creation, one-fourth of equity capital must be deposited.
Shares can be ascribed or held.
General Assembly of shareholders elect management.

Fiduciaries who handle the legal portion of incorporation estimate that the distribution among these options for newly created SME are the following:

Société Anonyme	90%
SARL	8%
All others except sole proprietorships	2%

A very small portion of SME depend on the public or parastatal sector. They are required to be legally constituted as a corporation and are generally created under the auspices of the Office pour le Développement Industriel (ODI)

The Jeune Promoteur program is available only to a "Société en non Collectif." There is no other choice for the entrepreneur.

ANNEX 5.B

PROCEDURES COMMON TO ALL SME

The procedures required to establish an enterprise are outlined in the accompanying tables. **Procedures which are common to all entities**, regardless of legal structure, require at least eleven steps which are not necessarily sequential. These are as follows:

A. Obtain a "Certificat Négatif"

The entrepreneur provides a list of possible names of his new company to the Central Registrar of Commerce in Casablanca. Approval of company name (obtaining the "Certificat Négatif") is a first legal requirement. The Certificat Négatif is issued when there is a negative answer (no one previously used the name) from the Registrar. The facility is centralized and presents little constraint. The process takes a few days and costs 20 DH; the service is easily used.

B. Establish a Legal Address

Tax authority and commercial law require that a business have a legal domicile address. Essentially the entrepreneur buys a "pas de porte" which gives the company the right to rent the property if it does not/cannot buy. While illegal, a company can use a residence as a temporary address.

This requirement of "domiciling" all businesses is an expensive constraint, particularly in urban areas and it encourages speculation. In addition it is an obstacle to the development of service sector businesses, which often could be operated from a residence.

C. Apply for the "Patente" Tax

All SME and other businesses must apply to the local tax office for the Patente tax. Documents required are:

- A demande d'inscription
- A rent contract, or a proof of a commercial address
- A copy of the Articles
- A copy of minutes of General Assembly and Board of Director's meetings

Item E below (proof of legal publication) is sometimes required. There is no cost for this application procedure, but it is a "point

of no return" when establishing a business. It is the step which presents the greatest psychological barrier to business creation.

D. Register Official Documents

This process requires that the entreprise officially register all written documents used in the creation of the business with the "Division de l'Enregistrement" of the Ministry of Finance (the local office).

The registration process is divided into two tasks and is done at two different offices:

- All documents related to legal matters (Articles, and minutes) are handled in one annex by the Cours d'Appelle;
- All other documents of non-legal nature (rental contract, proof of residency) are registered in another annex.

The process requires stamps for each document/each page (10 DH/page).

E. Legal Publication

Major parts of Articles of Incorporation must be published in the Official Journal and one commercial paper. Announcements must appear three days and cost 1,000 DH. This is normal procedure as the published announcement must be in the possession of the business in perpetuity. It is often required as documentation for the "Patente" tax.

F. File with the "Registre du Commerce"

The enterprise must file with the Trade Register; to do so the following documents must be presented to a Court, the "Tribunal de Premier Instance:"

- An application, in duplicate, legalized and stamped from the Registre du Commerce service
- Certificat Négatif
- Proof of registration with Patente
- Two originals + copy of Articles
- Two originals + copy of minutes of General Assembly and Board of Director meetings for SA and SARL
- Two originals + copy of "Déclaration de Souscription et de Versement" (See Annex 5.C, Item C)

Delays at this Tribunal are long, ranging from one day, if done by a Fiduciary or Notary, to two weeks, if done by an individual. This

is one stop on the road which is dreaded, disorganized, and filled with petty nuisances.

G. Obtain Authorization to Import Equipment, if needed

Required documents are pro-forma invoices and incorporation licence, Articles, minutes and Registre du Commerce. These documents are submitted to the Ministry of Industry and Commerce which must approve the request even if business is not seeking an advantage under an Investment Code. The enterprise is issued an Import Number and an Import permit.

H. Notify Tax Authorities of Legal Existence

Two types of registration are required at the regional Tax Office: one with the "Service des Impots Direct" and one with the "Service des Impots Indirect et des Taxes Assimilés."

- Impots Direct: register a document provided by the office which relates to "Impot sur la Société" (Corporate Tax);
- Impots Indirect: All SME must register for the TVA system. To obtain the form and register, the business must provide copies of minutes of the founding General Assembly and Board Meetings. This service provides a Tax Identification Number and the process takes approximately one month.

This step is an additional trip to Item F. The forms to be filled out are excessively complex; it is difficult to expect that they will be completed within the context of the Entrepreneur Profile which emerged from Survey II of 100 entrepreneurs (see Annex 9.C).

I. Register with the Social Security Service (CNSS)

An application form provided by CNSS must be completed and submitted along with a copy of the minutes of the General Assemblies and Board Meetings, and a copy of registration for the Patente Tax.

J. Have the General Ledger Books Initialed

All businesses are required to have a hand-written general ledger book and an inventory book bought commercially; pages must be numbered and stamped by the Tribunal to ensure that none are ripped out.

K. Have the Company's Employee Pay Record Book Officially Initialed

This step is the same as the one above, except additionally, the enterprise must supply a workers' insurance contract and a copy of registration with the CNSS. The Employee Pay Record must be initialed by the "Inspection du Travail."

ANNEX 5.C

PROCEDURES SPECIFIC TO AN S.A.

Procedures of establishment which are specific to an S.A. Corporation include the following:

A. Open a Bank Account

The enterprise must open a bank account with the original equity capital. One fourth of the equity capital is frozen under regulation. To open the commercial account, the banks require the "Certificat Négatif" and perhaps a copy of the company's Articles.

B. Write the Articles of Incorporation

Drafting the Articles and By-Laws is done by either the entrepreneur, a Fiduciary or a Notary; they are executed by private agreement. Ten copies of the Articles are required at the outset. Each page must be legalized, stamped and registered. The average number of pages is 12. Stamps are charged in accordance to the size of the paper: either 10, 20, or 30 DH, depending if the paper is 21 X 27, 21 X 31, or larger.

C. Establish the "Déclaration de Souscription et de Versement" (See Item F above)

This step must be done by a notary. The notary requires the following:

- A copy of the Articles
- A bank's attestation of deposit and blocking of one fourth of funds
- Seven copies of the company's stocks

With these, the Notary attests proof of incorporation by shareholders and certifies this step for the entrepreneur. There is usually a delay of 3 days for this process and one week to officially register the Déclaration.

D. Organize and hold the "Assemblée Constitutive Unique" (Founders Meeting)

The records of the minutes must be initialed by participants.

E. Organize and hold a Board Meeting

F. Register the Above Sessions

This step is done by a notary or a CPA.

G. Unfreeze the Bank Account

This is done against a notarized copy of the minutes of the above meetings and a copy of the published notice which appeared in the Official Bulletin (See Annex 5.B, Item E).

ANNEX 5 - TABLE 1

FORMALITES ADMINISTRATIVES APRES CONSTITUTION DE SOCIETE

FORMALITES	PERSONNES PHYSIQUES OU ASSOCIATION DE FAIT	PERSONNES MORALES (SOCIETES)
Demande d'autorisation administrative	Demande par simple lettre : - Copie du contrat de bail enregistré - Copie de la demande d'immatriculation au registre de commerce (R.C.)	Demande + Documents sociaux + copie de la demande d'immatriculation au R.C. + copie de la déclaration d'immatriculation au R.C.
Dépôt d'une déclaration d'existence auprès du service des Impôts Directs et Taxes Assimilées.	Demande sur imprimé fourni par le Service de la taxe	Demande sur imprimé fourni par le Service des Impôts + copies des statuts et autres documents sociaux.
Affiliation à la Caisse Nationale de Sécurité Sociale (C.N.S.S.).	- Demande sur imprimé - Copie de la demande d'immatriculation au Registre du Commerce - Copie du certificat d'inscription aux patentes.	Idem + copie des documents sociaux.
Déclaration d'existence à l'Inspection du Travail.	Demande + livre de paie	Idem + copies des documents sociaux
Dossier P.T.T. pour ouverture de chèques postaux et pour retrait de plis recommandés.	Si vous avez une dénomination commerciale, produire un certificat d'immatriculation au registre du commerce.	Documents constitutifs + copie du journal d'annonces légales legalisé contenant la publicité.

OÙ ?	DELAIS	COÛT
Préfecture ou Province du lieu du Siège Social.	20 jours	Neant
Direction des Impôts urbains du lieu du Siège Social.	À effectuer dans un délai de 20 jours de la date du début des activités pour les personnes physiques et 3 mois pour les personnes morales.	Neant
C.N.S.S. du lieu du Siège Social	Quelques jours	Neant
Inspection du Travail du lieu du Siège Social.	Quelques jours	Neant
Administration des P.T.T. du lieu du Siège Social.	10 jours	Frais de légalisation de signature

ANNEX 6

SUPPORT FOR SME DEVELOPMENT

ANNEX 6.A

LINES OF CREDIT AVAILABLE TO SME

(1) Public Sector SME Assistance

The PSA (procédure simplifiée accélérée) program and CMTR (Crédit a Moyen Terme) program to finance the SME sector were put in place by the Government through the Banque al Maghrib (BM) in 1972. This procedure has now been superceded by the CMTR/PME, the latest circular having been issued on March 21, 1989.

The SMEs eligible are defined as having less than DH 7.5 million net assets, if a new project, and if for an expansion, less than DH 15 million in net assets. The program permits a maximum loan of DH 5 million, or up to 70% of the cost of the project including cost of creation, land, physical investments, production material, transport, working capital, etc.

The loans can have a duration up to 7 years, including up to 2 years of deferral. Originally, the BNDE was the sole window for this credit, but it is now available through any bank. Approvals are still made at committee level, including representatives of the Minister of Finance and the Banque al Maghrib.

There is a CMTR program for purchase of production equipment. Up to 100% of the cost is financeable for up to 5 years at an interest rate of 9%. It is required that the value added by the Moroccan manufacturer must be at least 30%. If the equipment is to be purchased abroad, the project must be approved by the Office des Changes under present requirements.

Interest rates under the CMTR program are now 12% for loans of five years or less and 13% for loans over 5 years and up to 7 years. Long term loans could qualify for a 2% interest rebate under the Industrial Development Code, if the enterprise is located outside of Casablanca. The BNDE administers the loan rebate program.

(2) Donors' SME Assistance

A. Lines of Credit by Multi-lateral Agencies

Since 1978 there have been various efforts in the form of loans, grants, and technical assistance by exterior multi-lateral donors to assist the growth of the Moroccan SME sector, and more specifically, to encourage growth in employment. These donors have included World Bank; Organization of Petroleum Exporting Countries (OPEC), Vienna; the African Development Bank (BAD), Abidjan; the European Investment Bank (EIB) Luxembourg; and the Programme for Development of the United Nations (PNUD), including the UNIDO.

1. The World Bank Program (IBRD)

a. Small Scale Industry

The World Bank started their series of Small Scale Industry (SMI) Projects in Morocco with a \$5 million pilot program loan to the BNDE in 1977. This was followed by a SMI loan of \$25 million in 1979, and a second SMI loan of \$70 million in 1981, which was reduced to \$40 million in May 1984. A third project was approved in 1985 for \$25 million was made through ODI. It excluded the BNDE and used five banks in the private sector (BCM, WAFABANK, BCP, BMCI, and SGMB).

The original IBRD loans were co-financing programs, limited to covering not more than 50% of the cost of the project, but accepting a bank project financing program up to a level of 80% of requirements. Now the IBRD program finances up to 70% of the total envelope financeable, which usually therefore excludes land.

Basic criteria for inclusion under the IBRD loan program has been support of the Government's objectives for industrial development. The project must pass review by a technical review committee composed of representatives of the Ministries of Finance and Industry, the BNDE, the Office of Industrial Development (ODI), and the Caisse Centrale de Garantie (CCG).

In the past, the inclusion criteria stipulated that the project finance low-cost employment generation in small scale industries. There were certain cost maximums of investment per job criteria, which were indexed and changed over time, but which favored the less capital intensive investments. A stated purpose of these programs was to foster the growth of Moroccan entrepreneurship and to broaden the industrial base.

For lending purposes, SMI's are currently defined as industrial projects having total net assets of less than DH 5 million, (excluding land, but including building and working capital) and an investment cost of less than DH 40,000 to DH 50,000 per worker depending on the type of industry and the location.

Loan duration is up to 12 years with 5 years deferral. Interest rate is 12% for 7 year loans, and 13% for longer loans. Interest rate for leasing societies is 13%, with a maximum duration of 5 years, and no deferral. Interest is 13.5% for tourist facility loans with a special note that duration is a maximum of 15 years.

The World Bank project operates in the following fashion: it provides a loan to the Treasury, which is then on-lent to the BNDE and other banks. The loans have a fixed schedule maturity of 15 years, with a grace period of 4 years. At least 1% of the exchange rate is passed on to recipients.

Since the creation of the World Bank program through the second loan, 740 businesses were financed for DH 450 million, about DH 600,000 each, representing no more than 50% of their financing. By comparison, the PSA (procédure simplifiée accélérée) program and CMTR (Crédit a Moyen Terme) programs to finance the SME sector have mobilized approximately DH 200 million in the same period.

The BNDE plays a central role as the administrator of the World Bank loan, and is a partial direct beneficiary. The sub-loan guarantees of the individual loans are provided through the Caisse Centrale de Garantie (CCG). The CCG acts as the insurance agent for up to 80% of the loan, based on a fee, and business, property, and personal guarantees.

The needs of the Small and Medium-Scale Industries (SMI's) in preparing their loan applications are addressed by a Policy Making Unit in the Ministry of Industry and Commerce - staffed with four full-time professionals. A Technical Committee, composed of representatives from the Ministries of Finance and Industry, Bank al Maghrib, Office of Industrial Development (ODI) and the BNDE, reviews and approves SSI sub-projects for financing.

b. Export Industries Project - See Tables 1 and 2

In May 1987, the World Bank approved a DH 560 million (US \$70 million) package of loans for Export Industry financing. IBRD funds were limited to 40% of this new loan program, with 60% of the loan funds to come from BNDE (40% allocation) and seven commercial banks (60%). By August 1989, DH 380 million (68%) of WB funds had been disbursed to 82 sub-projects and 90% of remaining DH180 million was already committed. Statistical details of the allocation of these loan funds between new start-ups and project expansions by economic sector can be found in Table 1 at the end of this Annex.

In the program DH 480 million was loaned to **new start-ups**. Of these, 88.9% of the loans were directed to the textile sector (cut and sew, knitting/spinning, and carpets). Approximately 8% was agricultural or food processing investment. Especially noteworthy is the high level of equity investment that is characteristic of WB programs. Only one project for tomato processing was made at the 30% minimum. Average equity requirements approximate 40%, and of the 38 projects approved, 8 show 50% or more equity requirement.

DH 416 million of the project was used for **expansions**. Loan durations vary from 5 to 12 years. Of the total, 83.2% of the loans were directed to the textile sector and 4% went to agriculture and food processing. The average owners' equity was 40%. Of the 44 projects approved, 5 exceeded a 50% equity investment requirement.

A second World Bank Export Industries Project, totalling \$170

Annex 6.A

million is being projected for the five years 1991-1996. Funds are to be allocated to BNDE (29%), BMCE (24%), BCM (15%), Wafabank (10%), BCP and BMCI (7% each), SGMB (5%), and Crédit du Maroc (3%); loan agreements have been negotiated (See Table 2). The World Bank is seeking participants from other international donors.

SME's for purpose of the loan are currently defined as industrial investments of less than DH 15 million in net assets, exclusive of land, and with an investment of less than DH 121,000 per employee.

2. The African Development Bank (BAD) program - in concert with the BNDE

All Moroccan SMI are eligible for this program, but it is aimed at enterprises with at least DH 30 million. Up to 75% of the investment can be financed under this line of credit. The duration of loans is from 5 to 12 years for BNDE long-term credit at 13% per year; from 2 to 7 years for the medium-term credits (CMTR) at 12% per year. The maximum deferral period is 3 years.

A credit guarantee from the CCG is required for 80% of the loan, with other guarantees subject to negotiation with the bank.

3. Capital Risk/BEI European Investment Bank Program to Finance Moroccan/European Joint-Ventures

An ECU 9 million credit line facility was announced July 25, 1989. Moroccan enterprises valued between DH 1 million and DH 15 million are eligible, excepting certain exporting enterprises. A European joint venture partner is preferred, but not an absolute requirement for credit considerations. (The projects are approved individually by the BEI.)

Loans can be made up to the Moroccan partner represented by some equity shares in the company, but not more than 50% of the total capitalization, or more than the Moroccan partner brings to the enterprise. Loans of this type have a 22 year minimum duration, and 25 year maximum duration; they are at an interest rate of 5%. All interest is deferred until the 6th year after loans are committed.

Credits for direct equity capital provision can be made, represented by equity shares in the company, but not more than one third of the equity capitalization.

All of the private banks offer this credit, as well as the BNDE, the JNCA, and the CIH. Approvals are made by the representatives of the Minister of Finance and the Banque al Maghrib and the BEI.

(3) Lines of Credit by Bilateral Agencies

Recently, there have been various efforts in the form of loans, grants and technical assistance by exterior bi-lateral donors to assist the growth of the Moroccan SME sector, and more specifically, to encourage growth in employment. The donors have included (the list is not all inclusive) the Kuwaiti Fund; Société Belge d'Investissement International S.A. Brussels and the Belgian Ministre de la Coopération au Développement; Kreditanstalt für Wiederaufbau (KfW); and Société Financière Allemande d'Investissements dans les Pays en Développement (DEG) of the Federal Republic of West Germany; Caisse Centrale de Coopération Economique (CCCE), Paris and the French Government; CEDI and the Canadian government, and the Italian government.

- a. Joint-venture Investment program between Morocco and the Belgian Ministre de la Coopération au Développement;

A line of credit for 4 years of FB 100 Million, (Belgian francs) for joint-venture investments between Moroccans and Belgians was announced June 29, 1989. Each Project investment must be between FB 1 million and FB 15 million. The line is to be administered by the ODI, with assistance from UNIDO and the Société Belge d'Investissement International S.A. Brussels.

- b. Joint-venture Investment program between Morocco and the French Caisse Centrale de la Coopération Economique;

A line of credit is being negotiated for joint-venture investments between Moroccans and French citizens. Details on the limits of each project investment were not available. A program to finance project studies with the BNDE is already in place.

- c. Joint-venture Investment program between Morocco and the Italian Ministre de la Coopération Economique;

A line of credit is being negotiated for joint-venture investments between Moroccans and Italian citizens. Details on the limits of each Project investment were not available.

ANNEX 6.A - TABLE 1

WORLD BANK SME EXPORT INDUSTRIES PROJECT

Company Name	Project Type	Invest ----- DH MIL	Loan	Equity	% -----Equity	Loan Yrs	Employ Creatd
New Start-ups:							
Targaflor	Cut flowers	5.75	2.55	3.20	55.7%	6	23
Somacoprag	Agro Processing	6.12	3.00	3.12	51.0%	5	205
Marocapres	Veg. Canning	7.60	5.30	2.30	30.3%	8	6
Maraissa	Tomato Process.	9.20	8.20	1.00	10.9%	7	na
Dipromer	Fish Processing	9.50	4.80	4.70	49.5%	8	100
Copag	Agroprocessing	11.50	6.90	4.60	40.0%	7	298
Top Agro	Fruit Canning	20.00	10.00	10.00	50.0%	10	146
	AGRICULTURAL	69.67	40.75	28.92	41.5%		778
Ste Eben	Cabinet making	4.20	3.20	1.00	23.8%	7	na
Sale Plastic	Plastic Film	6.00	4.00	2.00	33.3%	9	47
CIEA	Circuit Assmby	12.50	6.00	6.50	52.0%	7	143
	GNL MANUFACTURE	22.70	13.20	9.50	41.9%		190
TEXTILES							
Saft	Cut & Sew	2.57	1.80	na	na	na	na
Sacqr Confection	Cut & Sew	2.40	1.40	1.00	41.7%	5	134
Djeaning Exp	Cut & Sew	2.50	1.70	0.80	32.0%	6	84
Lailaco	Cut & Sew	3.00	1.50	1.50	50.0%	7	60
Cecile Confection	Cut & Sew	3.00	2.60	0.40	13.3%	5	68
Tricofil	Cut & Sew	3.10	1.80	1.30	41.9%	7	100
Wearco	Cut & Sew	4.95	2.50	2.45	49.5%	7	109
Fracotex	Cut & Sew	7.36	5.15	2.21	30.0%	7	151
Cofadis	Cut & Sew	10.00	6.00	4.00	40.0%	7	300
Steve Diffusion	Cut & Sew	13.68	8.00	5.68	41.5%	7	256
Luckor	Cut & Sew	18.57	13.00	5.57	30.0%	na	na
Taza Maroc	Cut & Sew	21.20	14.80	6.40	30.2%	10	300
Gegotex	Cut & Sew	24.09	14.09	10.00	41.5%	12	300
M1 Bleu	Cut & Sew	25.00	16.00	9.00	36.0%	6	182
	CUT AND SEW	141.42	91.11	50.31	35.6%		2044
Dali	Textile Dyeing	12.00	6.40	5.60	46.7%	7	17
Marocolor	Textile Dyeing	24.60	16.60	8.00	32.5%	7	47
Unifatex	Knitting	7.00	3.00	4.00	57.1%	5	154
Bonneter Ind Lanc	Knitting	8.40	5.90	2.50	29.8%	6	180
JCK Textiles	Knitting	8.63	5.20	3.43	39.7%	6	139
Sofilam	Spinning	6.40	3.90	2.50	39.1%	7	38
Rifotex 2	Spinning	4.29	3.00	1.29	30.0%	na	na
Chafil	Spinning	25.05	15.00	10.05	40.1%	5	43
Rifotex	Spinning	26.50	14.50	12.00	45.3%	8.8	101
Tex Blanchemaille	Spinning	32.80	14.40	18.40	56.1%	8	97
Artifil	Spinning	123.00	83.00	40.00	32.5%	10	221
Setafil	Spinning	163.00	88.00	75.00	46.0%	11.5	200
Nascoblue	Weaving	112.00	67.20	44.80	40.0%	8	98
Chellah Carpet	Carpets	13.50	9.00	4.50	33.3%	7	86
	TOTAL TEXTILES	708.59	426.21	282.38	39.9%		3465
TOTAL NEW START-UPS:		800.96	480.16	320.79	40.1%		4243

ANNEX 6.A - TABLE 1
WORLD BANK SME EXPORT INDUSTRIES PROJECT

Company Name	Project Type	Invest ----- DH MIL	Loan ----- DH MIL	Equity ----- DH MIL	% ----- Equity	Loan Yrs	Empl Creatd
Expansions:							
Palmaroc	Fruit Canning	1.02	0.60	0.42	41.2%	5	66
Covem	Veg Canning	3.00	1.80	1.20	40.0%	5	na
Ets Agouzza	Fish canning	7.10	5.00	2.10	29.6%	8	57
Beniflor	Cut flowers	19.49	7.20	12.29	63.1%	7	96
	Agricultural	30.61	14.60	16.01	52.3%		219
Leather							
Vetexcuir	Leather Clothes	4.20	3.70	0.50	11.9%	5	150
Le Triangle	Leather shoes	6.50	4.00	2.50	38.5%	7	92
Jean Carel	Leather Tanning	12.00	7.20	4.80	40.0%	8	70
Somite	Mining	6.30	3.50	2.80	44.4%	5	na
Societe Chem	Paper Pkg	7.50	5.00	2.50	33.3%	8	21
Cellulose de Maro	Paper Pulp	100.00	32.00	68.00	68.0%	5	0
TEXTILES							
Souiran	Cut & Sew	2.57	1.80	0.77	30.0%	na	na
DEV Confection	Cut & Sew	3.43	2.40	1.03	30.0%	na	na
Burda	Cut & Sew	2.38	1.00	1.38	58.0%	5	113
Casa Mode	Cut & Sew	2.50	1.50	1.00	40.0%	5	109
DEV Confection	Cut & Sew	3.14	1.88	1.26	40.1%	5	97
Casa Mode II	Cut & Sew	3.50	2.00	1.50	42.9%	7	160
Socowel	Cut & Sew	3.90	3.30	0.60	15.4%	6	na
Sonam	Cut & Sew	4.40	2.64	1.76	40.0%	7	45
Manic	Cut & Sew	5.50	3.50	2.00	36.4%	6	102
Atlantic Confecti	Cut & Sew	5.68	3.30	2.38	41.9%	5	164
Leonard Maendel	Cut & Sew	6.00	3.60	2.40	40.0%	5	97
Sonil Europe	Cut & Sew	10.00	6.00	4.00	40.0%	7	200
Sicome	Cut & Sew	13.40	8.00	5.40	40.3%	7	100
Polymaille	Cut & Sew	13.93	8.00	5.93	42.6%	6	74
Iboma	Cut & Sew	22.90	18.70	4.20	18.3%	10	130
Norprotex	Cut & Sew	32.00	22.00	10.00	31.3%	10	219
	Cut & Sew	135.23	89.62	45.61	33.7%		1610
Aritex	Knitting	2.20	1.70	0.50	22.7%	6	90
Petit Poussin	Knitting	4.20	2.50	1.70	40.5%	na	na
Polytex	Knitting	5.35	3.20	2.15	40.2%	5	127
Alika	Knitting	6.75	2.85	3.90	57.8%	8	20
Confection Mehdi	Knitting	6.72	4.50	2.22	33.0%	10	50
Lancelotti	Knitting	8.45	5.07	3.38	40.0%	7	80
Dali II	Knitting	10.00	6.80	3.20	32.0%	7	85
Lancelotti II	Knitting	11.70	7.00	4.70	40.2%	7	100
	Knitting	55.37	33.62	21.75	39.3%		552
Societe Montex	Carpets	4.92	2.80	2.12	43.1%	6	18
Altas Carpet	Carpets	9.40	7.40	2.00	21.3%	7	105
Mocary	Carpets	18.00	11.70	6.30	35.0%	10	50
	Carpets	32.32	21.90	10.42	32.2%		173
Filatis	Spinning	19.40	13.50	5.90	30.4%	10	28
Magefil	Spinning	22.38	13.80	8.58	38.3%	9	43
Sogetis	Spinning	33.90	18.00	15.90	46.9%	8	59
Soft	Spinning	40.00	24.00	16.00	40.0%	8	100
Cofitex	Spinning	100.00	65.00	35.00	35.0%	12	110
	Spinning	275.4	175.30	100.1	36.3%		668
Utex	Weaving	13.50	9.00	4.50	33.3%	7	48
Manatex	Weaving	69.60	58.00	11.60	16.7%	11	80
	TOTAL TEXTILES	521.7	346.44	175.26	33.6%		2803
TOTAL COMPANY EXPANSIONS:		688.81	416.44	272.37	39.5%		3355

ANNEX 6.A
TABLE 2

Effect of 1990 World Bank Export Industry Loan on Moroccan Banking Sector

Name of Bank ----- (Public & Private)	1988	Required	*	ACTUAL		Total MTR Loans DH Mil.	Sight Deposits/ M/LT %		1990 WBank Exp Indus Loan	Add'tl SME Loans %
	Sight Deposits DH Mil.	CMTR/or BNDE Bonds		Medium term Loans %	Long term Loans %					
Special Institutions of Government:										
CNCA	1,202	na	*	4,840	0	4,840	403%	*	na	na
BNDE	92	na	*	934	2565	934	1015%	*	400	42.8%
Commercial Banks:										
B/Credit Populaire	13,723	755	*	2,019	0	2,019	15%	*	96	4.8%
BMCE	5,461	300	*	549	0	549	10%	*	320	58.3%
BCM	4,652	256	*	604	0	604	13%	*	200	33.1%
BMCi	2,869	158	*	407	0	407	14%	*	96	23.6%
CduM	2,972	163	*	296	0	296	10%	*	40	13.5%
SGMB	2,491	137	*	468	0	468	19%	*	72	15.4%
WAFABANK	3,383	186	*	289	0	289	9%	*	136	47.1%
Total Commercial	29,677	1,632		3,875	0	3,875	13%	*	960	24.8%
TOTAL	36,845			10,406	0	10,406			1,360	13.1%

* Required - 5.5% of Sight Deposits

Sources: 1987 and 1988 Company Data
1989 World Bank Staff Appraisal Report
1988 Report Bank al Maghrib

ANNEX 6.B

LAW 36/87 - YOUNG PROMOTER PROGRAM

The fund was created by Parliamentary Law in December 1987 and announced in January 1988. (Reference La Loi no. 36-87 du 19-12-87 promulge par Dahir no. 1.87.199 du 30 Décembre 1987 - et dans le Bulletin Officiel no 3923 du 6 January 1988, page 35)

The Objective of this Fund is to make credits available to young entrepreneurs at the same time that the entrepreneur creates salaried employment (but not conditional on such employment).

A "young entrepreneur" is defined under the law as someone between 21 and 40 years of age who holds a high school diploma, or who has completed a professional education at high school level or has an attestation of such professional qualifications. (In fact, the program is available to people who have not succeeded in getting their diploma, but who took the baccalaureate examination.)

The person to whom the loan is given is responsible for repayment and therefore must be a sole proprietor and not a corporation. Partnerships and other collective types of associations in the proposed project are permitted, even with people who do not qualify for the loan program. The young promoter loans must be used for the project for which they have been approved and are non-transferable to any other investment.

The initial capitalization of this Fund was DH 540 Million, which was made up of a long term (65 year) loan of DH 390 millions from the Government plus, a shorter-term (25 year) loan from the bank which subscribed to the fund through the Ministry of Finance

The maximum amount of any one project subscription by a qualified young promoter is DH 500,000 (\$63,000). To get the maximum amount, which can not exceed 90% of the total project investment, the project total cost must be at least DH 555,556, since the promoter must provide 10% of his own money to the project investment. If the promoter wants to invest more of his own money, there is no other limitation.

The loans are of split duration - 12 years for the 72% (65% of the 90% financable project investment which comes from the Government, and 7 years from the 38% (25% of the 90% financable) which originates with the Bank. The maximum grace period is a 7 years before reimbursement is required on the government's part of the loan. Terms are maximum, and are not always granted the applicant. The interest rate of 12% is slightly less than the interest rates normally charged for medium term credits. Interest is due monthly and not deferred on the amount from the bank. Interest due to the Government is deferred for 2 years.

Regarding the Formalities at the Bank:

Although the bank may or may not hand out the standard form, depending upon bank policy, the loan request must be in the standard format and is presented to a bank. The BCM, Banque Populaire and SGMB all indicated that they have widely advertised the availability of loans under the Jeune Promoteur Program.

A standard format, which is presented elsewhere in this study as an exhibit, was recommended for all loan requests by the Central Bank, and generally follows the following outline:

- Page 1: General Information on Applicant
including project participation by others
- Page 2: Program of Investment
Capital Requirements
*Buildings, Machinery, Working Capital
Financial Resources (incl. loan)
Expected start-up date
Estimated Number of employees
Investment Cost per employee
- Page 3: Production capacity pre- and post-loan Five
Year Pro-forma of Sales and of Cash flow
- Page 4: Characteristics of Credit/loans requested
Including guarantees/cautions to be provided
- Page 5: The observations by the bank on the project
- Page 6: Attachments:
Pro-forma invoices for any material required;
Contract for the rental of business premises;
Sales Contracts, or preliminary sales orders;
Resume (Curriculum Vitae) of the Entrepreneur;
Remarks by local head of the Bank's agency and
characterizations on the morality of the
proposed debtor; and
Life Insurance Policy on debtor

* - Note: The banks are not permitted to finance land purchases, and the lease contract to rental property can not exceed 25%.

LA LOI 16

1. Exonération des droits d'importation

Le matériel neuf importé ou le matériel et outillage d'occasion autorisé à l'importation ne subit pas de droits douaniers d'importation, s'ils rentrent dans le cadre de l'exécution d'un programme d'investissement réalisé par un jeune lauréat des établissements de formation professionnelle.

2. Exonération de la taxe sur la valeur ajoutée applicable au matériel et outillage importés

3. Exonération de la taxe sur la valeur ajoutée applicable aux achats locaux de matériel et outillage

4. Exonération des droits d'enregistrement applicable au terrain acquis à titre onéreux et affecté au projet

5. Exonération de l'impôt sur les bénéfices professionnels ou de l'impôt sur les sociétés pendant les cinq premières années et exonération de 50% de ces impôts pendant les cinq années suivantes

6. Exonération de l'impôt des patentes pendant les cinq premières années d'exploitation

7. Une avance de 10 000 DH peut être accordée par l'OFFPPT aux lauréats. Le remboursement de cette somme peut être effectué sur quatre ans et ne donne pas lieu à intérêt. Ceci se traduit, en fait, par une véritable prime de 3 500 DH représentant les intérêts qu'aurait dû normalement verser le bénéficiaire

8. La loi prévoit des stages d'une durée maximum de 12 mois au sein des entreprises privées. Cette disposition est une véritable protection du lauréat car elle évite l'emploi d'individus pour des durées supérieures à une année sans que leur statut soit celui d'un collaborateur titulaire de son poste. D'autre part, cette disposition permet aux lauréats de se prévaloir d'une expérience pratique dans le monde du travail par la suite

9. La loi 16 en prévoyant la réglementation de certains métiers contribue, non seulement à l'assainissement du marché, mais elle offre des perspectives intéressantes aux lauréats de la formation professionnelle en leur assurant l'exclusivité de certaines pratiques (voir liste en Annexe).

ANNEX 6.D

MUTUAL FUND (MF)

L'objectif du Mutual Fund est de faciliter l'accès aux crédits bancaires à toute PME qui se heurte aux contraintes classiques de garanties du système bancaire.

L'idée du MF est la mise en oeuvre d'un mécanisme original permettant la création de groupements qui faciliteraient l'attribution des crédits par une banque en organisant une solidarité financière entre les professionnels d'un même secteur d'activité.

Le groupement constitué sous forme d'une société de cautionnement mutuel (MF) a pour objet de fournir au banquier une garantie collective que toute PME isolée ne peut fournir.

Seul le ratio humain est pris en considération,

- . Son savoir-faire
- . Son honorabilité

Pour réduire les incertitudes financières d'une affaire, la technique du fonds de garantie a été envisagée: Fonds de garantie =

- . montant nominal des cotisations versés pour la constitution du capital de la Société Mutualiste.
- . Intérêts produits du fait du placement du montant nominal.
- . Quotite versée en fonction du crédit sollicité pour chaque PME utilisant le fonds de garantie.

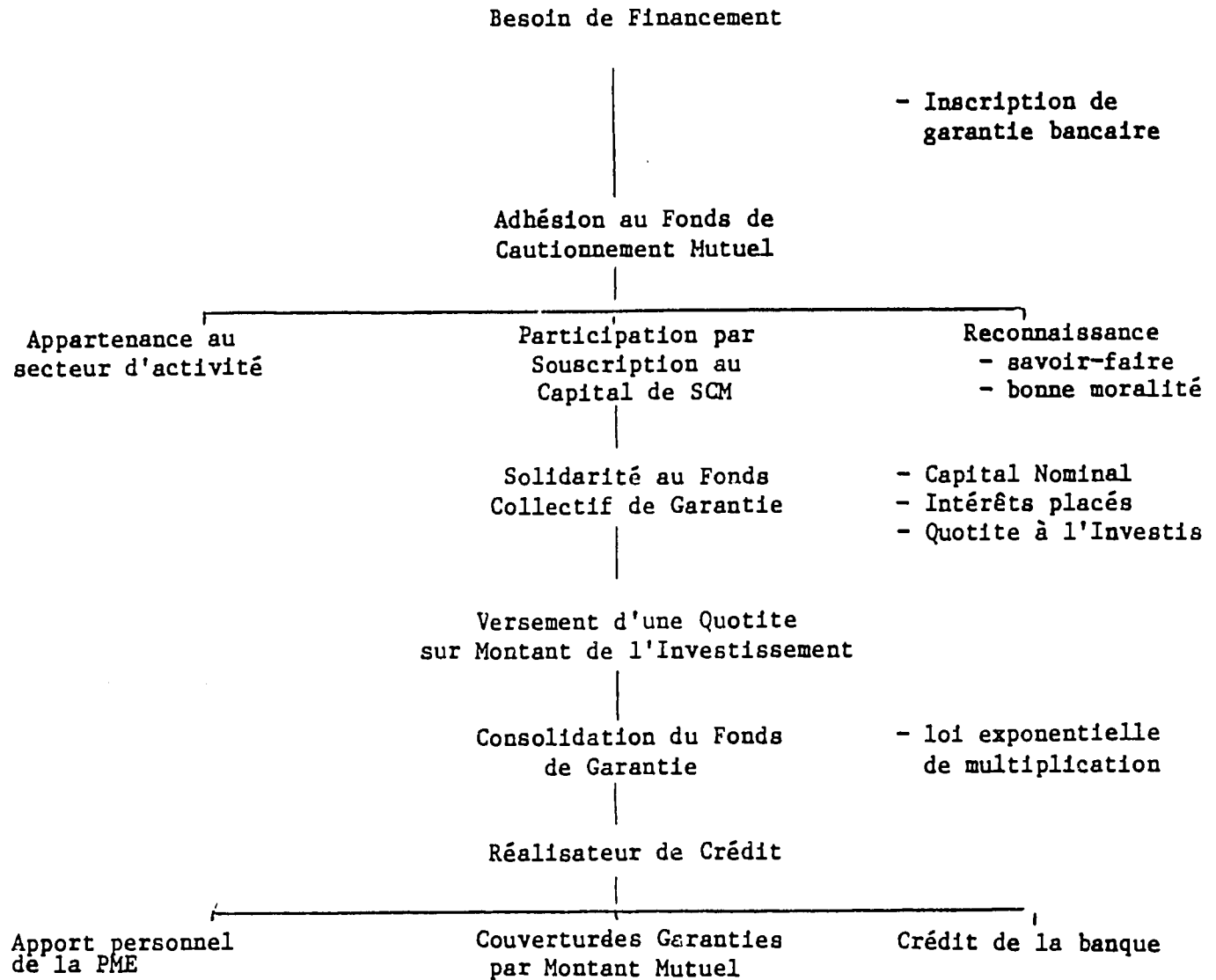
Grâce à son effet multiplicateur du fait :

- . de l'importance du fonds de départ
- . le nombre de PME adhérent au fonds
- . et les intérêts générés par le placement du fonds, le mutual fund s'engage à couvrir la perte du crédit concernant les garanties classiques bancaires sur le projet. L'impact de ce fonds est d'autant plus efficace et opérationnel si son capital de base est dûment subventionnée.

Les champs d'interventions de ce système de conditionnement est très large.

- Crédits d'investissement à moyen terme
- Crédits à court terme de fonctionnement
- Besoin en fonds de roulement
- Crédit de campagne spécifiques: export, marché

ANNEX 6.D
ORGANIGRAMME DE CONSTITUTION D'UN
FONDS DE CAUTIONNEMENT MUTUEL



ANNEX 6.E
TABLE 1
MINISTRY OF COMMERCE
AND INDUSTRY
Investment Approvals under the Industrial Investment Code through 1988

Year	1984		1985		1986		1987		1988		1989	
	No of Establmnt	Investmt DH Mil	No of Establmnt	Investmt DH Mil	No of Establmnt	Investmt DH Mil	No of Establmnt	Investmt DH Mil	No of Establmnt	Investmt DH Mil	No of Establmnt (Jan-Nov)	Investmt DH Mil
Agricultural												
Grains bakeries sugar	114	206	220	99	94	245	127	181	131	259		
Miscell. other	86	303	101	509	115	641	113	417	137	556		
Beverages/tobacco	8	44	11	63	15	84	8	51	15	256		
Cold storage services	94	258	152	280	151	282	204	655	182	402		
Sub-total	302	811	484	951	375	1252	452	1304	465	1473	329	989
Leather & shoes	49	84	59	85	48	66	59	103	81	429	na	na
Textiles:												
Cut & Sew	61	67	120	182	145	248	332	663	378	732	na	na
Spinning, weaving & knitting	160	566	147	514	207	652	228	1,091	279	1,072		
Sub-total	221	633	267	696	352	900	560	1,754	657	1,804	756	2,258
Other Manufacturing												
Wood	27	42	37	87	29	48	22	30	44	92		
Paper	63	108	68	123	54	115	86	193	89	238		
Non-metal products	55	322	43	275	44	165	54	325	71	642		
Chemicals	56	102	41	92	56	310	55	218	74	292		
Rubber & Plastics	53	82	64	121	83	152	84	196	89	223		
											391	1,394
Basic Metals	14	43	13	46	4	4	66	13	12	30		
Metal working	86	157	76	150	92	226	99	251	79	184		
Machines & Equipment	44	116	34	66	40	159	43	58	54	65		
Transportation etc.	21	51	17	36	23	29	23	135	25	57		
											178	536
Electrical/-tronic	31	194	37	91	41	77	48	87	59	246		
Other Misc.	11	33	9	12	13	43	12	23	13	8		
Sub-total	461	1,250	439	1,099	479	1,328	592	1,529	609	2,077		
											60	182
Total	1,033	2,778	1,249	2,831	1,254	3,546	1,663	4,690	1,812	5,783	1,892	6,097
Average Investment		2.7		2.3		2.8		2.8		3.2		3.2
Year-to-year growth			20.9%	1.9%	0.4%	25.3%	32.6%	32.3%	9.0%	23.3%	4.4%	5.4%
Employment Created	27,948		30,575		34,768		54,158		59,581			
Avg Jobs/Enterprise	27		24		28		33		33			

Note: Annual MCI surveys indicate that approximately 80% of projects approved for Investment Code status actually are implemented

Source: Ministry of Commerce & Industry Data

ANNEX 6.E
TABLE 2
MINISTRY OF COMMERCE
AND INDUSTRY
SME Investment Approvals under the Industrial Investment Code through 1988
Using new MCI definition of SME equaling employment under 200 employees

Year	1984	Avg	1985	Avg	1986	Avg	1987	Avg	1988	Avg
	No of Establmnt	Investmt DH Mil	No of Establmnt	Investmt DH Mil	No of Establmnt	Investmt DH Mil	No of Establmnt	Investmt DH Mil	No of Establmnt	Investmt DH Mil
Agricultural										
Grains bakeries sugar	114	1.81	220	0.45	94	2.61	127	1.43	131	1.98
Miscell. other	86	3.52	101	5.04	115	5.57	113	3.69	137	4.06
Beverages/tobacco	8	5.50	11	5.73	15	5.60	8	6.38	15	17.07 *
Cold storage services	94	2.74	152	1.84	151	1.87	204	3.21	182	2.21
Sub-total	302	2.69	484	1.96	375	3.34	452	2.88	465	3.17
Leather & shoes	49	1.71	59	1.44	48	1.38	59	1.75	81	5.30
Textiles:										
Cut & Sew	61	1.10	120	1.52	145	1.71	332	2.00	378	1.94
Spinning, weaving & knitting	160	3.54	147	3.50	207	3.15	228	4.79	279	3.84
Sub-total	221	2.86	267	2.61	352	2.56	560	3.13	657	2.75
Other Manufacturing										
Wood	27	1.56	37	2.35	29	1.66	22	1.36	44	2.09
Paper	63	1.71	68	1.81	54	2.13	86	2.24	89	2.67
Non-metal products	55	5.85	43	6.40	44	3.75	54	6.02	71	9.04 *
Chemicals	56	1.82	41	2.24	56	5.54	55	3.96	74	3.95
Rubber & Plastics	53	1.55	64	1.89	83	1.83	84	2.33	89	2.51
Basic Metals	14	3.07	13	3.54	4	1.00	66	0.20	12	2.50
Metal working	86	1.83	76	1.97	92	2.46	99	2.54	79	2.33
Machines & Equipment	44	2.64	34	1.94	40	3.98	43	1.35	54	1.20
Transportation etc.	21	2.43	17	2.12	23	1.26	23	5.87	25	2.28
Electrical/-tronic	31	6.26	37	2.46	41	1.88	48	1.81	59	4.17
Other Misc.	11	3.00	9	1.33	13	3.31	12	1.92	13	0.62
Sub-total	461	2.71	439	2.50	479	2.77	592	2.58	609	3.41
Total	1,033	2.69	1,249	2.27	1,254	2.83	1,663	2.82	1,812	3.19

Source: MCI 1988 data

* Note: Industrial Investments exceeding 7.5 million DH should not qualify as SME

Source: Ministry of Commerce & Industry Data

ANNEX 6.E
TABLE 3
INVESTMENT CODE APPROVALS
VERSUS MEDIUM/LONG TERM CREDITS

BNDE and Commercial bank CMTR financing for Industrial Investments

Year	1984	1985	1986	1987	1988
	-----	Millions	Constant DH	-----	-----
Food Industries	811	869	1,038	1,073	812
Textiles & Leather	717	712	802	1,527	1,693
Electro-mechanical	583	360	434	467	445
Chemicals & Others	667	642	669	792	1,130
MCI Investment Approvals	2,778	2,583	2,943	3,859	4,080
Year-to-year Growth		-7.0%	13.9%	31.1%	5.7%
	-----	Millions	Current DH	-----	-----
MCI Investment Approvals	2,778	2,831	3,546	4,690	5,783
Year-to-year Growth		1.9%	25.3%	32.3%	23.3%
BNDE Approvals:					
Loan Disbursements	504	510	611	550	760
Equity Investments	8	3	16	15	0
Total BNDE	512	513	627	565	760
Investment financing % of MCI IC approvals /1	18.4%	18.1%	17.7%	12.0%	13.1%
Commercial Bank Approvals:					
CMTR Loans /2	338	392	432	426	521
World Bank SSI Program	33	75	90	81	18
Total Other Banks	371	467	522	507	539
of MCI IC approvals /1	13.4%	16.5%	14.7%	10.8%	9.3%

CREDITS TO ECONOMY
Medium/Long term Loans

Total BNDE Financing	6.6%	6.2%	5.9%	5.5%	5.2%
Commercial Banks	6.9%	7.1%	7.6%	7.6%	8.8%
Other Institutions /3	21.7%	22.3%	22.5%	23.3%	23.7%
Total M/LT credit - %	35.2%	35.6%	36.0%	36.4%	37.7%

- 1/ - Annual MCI surveys indicate that on average, 80% of the projects MCI approves for Investment Code status actually are implemented
- 2/ - Rediscounted loans that were reviewed and approved by BNDE
- 3/ - CNCA for agriculture and CIH for housing and hotels

Source: Ministry of Commerce & Industry Data
BNDE 10 Year Summary of Activities
Bank al-Maghrib Annual Reports

ANNEX 6.E
TABLE 4
INVESTMENT APPROVALS IN MANUFACTURING 1984-1989

	1984	1985	1986	1987	1988	1989 *
Food Industries	811	869	1,038	1,073	812	430
Textiles and Leather	717	712	802	1,527	1,693	1,083
Engineering	583	360	434	467	445	281
Chemicals & Others	667	642	669	792	1,130	913
Total	2,778	2,583	2,943	3,859	4,080	2,707
Jobs Created	27,948	30,575	34,768	54,158	59,581	33,318

* Through mid-year

Source: Ministry of Commerce and Industry
Planning Division

ANNEX 6.F

BNDE FINANCIAL ASSISTANCE to SME

The following is a recapitulation of cumulative credits accorded to SME through the BNDE during the 10 year period from 1978 through 1988:

The amounts, by credit scheme:	For 10 years 1978/1988	
	DH million	\$ million
Direct Credits	5,994	749
CMTR - medium term credits	3,698	462
Participation	67	8
Total	9,759	1,220
(of which Private enterprise	8,385	1,048
Number of BNDE credits to SMI	1,225	
versus number of BNDE Loans	2,071 *	
The amounts, by credit scheme:	DH million	\$ million
Programme Interventions (P.I.)	1,822	228
CLMTC - Credit long-term	805	100
CMTR - medium term credits	359	45
Total	2,986	373
Total Employment Created by SME	53,500	

* Includes short, medium & long-term credits as well as direct and participation.

Source: BNDE Annual Report pg 46 & 47, BNDE's 30 year Service Summary, and Annexes III and IV to World Bank Loan II Proposal

NOTE: Except in 1986, BNDE loan approvals show dramatic increases. In addition, CMTR credits approved by the BNDE, which originated at other banks under the CMTR program, show increases during the period. Until 1988 all CMTR loans required review and approval by BNDE; now CMTR project review and approval by BNDE is limited to projects over DH 5 million and loans over 70% of project cost. SME which have under DH 10 million in assets are eligible for CMTR loans.

ANNEX 6.F

BNDE Five Years Activities and Loan Credits to Finance Industrial Enterprises & SME

	Year	1984	1985	1986	1987	1988	Five Year 1984/1988
		-----	-----	-----	-----	-----	-----
		DH Millions					
Direct Loans							
Approvals		501	699	595	722	1210	3727
Committments		506	562	658	551	864	3141
Disbursements		504	510	611	550	760	2935
Equity Investments		8.0	3.2	15.5	15.2	0.2	42.1
Other Bank's Loans Approved:							
Credits under the CMTR Program		338	392	432	426	521	2109
Credits for SME's		33	75	90	81	18	297
Total Credits Approved		371	467	522	507	539	2406
Total All Credits Approved including Equity Investments		880	1169.2	1132.5	1244.2	1749.2	6175.1
Summary/BNDE Financial Position:							
Loans Outstanding - end of year		2849	2766	2871	2878	3044	na
Equity Investments		131	140	147	156	159	na
Total Credits to Economy		2980	2906	3018	3034	3203	15141

Year-to-year Loan/equity growth:							
Approvals Direct Loans			39.5%	-14.9%	21.3%	67.6%	na
Equity Investments			-60.0%	384.4%	-1.9%	-98.7%	na
Credits under MTR Program			16.0%	10.2%	-1.4%	22.3%	na
Credits for SME's			127.3%	20.0%	-10.0%	-77.8%	na
All Credits Approved by BNDE			25.9%	11.8%	-2.9%	6.3%	na

na=Not Applicable

Source: BNDE reports

ANNEX 6.G

Office for Industrial Development
Ten Year Summary
Actions in Favor of SME

By Industrial Sector: From 1979 through 1983	No of Projects	% Investment		% Employment	%
			DH 000		
Textiles and rugs	5	10.0%	9,064	4.7%	491 16.3%
Tanning and Leather	7	14.0%	12,663	6.6%	512 17.0%
Bandages/ etc.	3	6.0%	7,973	4.1%	282 9.4%
Textiles and Leather - Total	15	30.0%	29,700	15.4%	607 20.2%
Agro Industry - Total	7	14.0%	8,940	4.6%	250 8.3%
of which bakers	3	6.0%	5,161	2.7%	97 3.2%
				0.0%	0.0%
Electro-Mechanical - Total	13	26.0%	30,877	16.1%	643 21.4%
of which electric apparatus	2	4.0%	1,510	0.8%	47 1.6%
Construction Materials	4	8.0%	16,430	8.5%	346 11.5%
Articles in Plastic	5	10.0%	7,900	4.1%	195 6.5%
Wood Working	4	8.0%	2,300	1.2%	93 3.1%
Mineral Products	2	4.0%	6,200	3.2%	192 6.4%
Chemical and Parachemical - Total	11	22.0%	16,400	8.5%	480 16.0%
Total SME Industrial thru 1983	50	100.0%	192,347	100.0%	3,004 100.0%

Number of SME Projects From 1984 through 1988	Tech Assist No Projects	Investment DH 000	Employment
Year 1984	25	61000	380
Year 1985	140	280,000	5,663
Year 1986	163	289,000	6,194
Year 1987	6	200,000	550
Year 1988	2	80,000	1,100
Total 1984 thru 1988	356	910,000	13,887

Total OOI Industrial Assistance

By Industrial Sector: From 1979 through 1988	Investment DH 000	% Employment	%
Textiles and Leather	462,935	20.2%	1,625 20.2%
Agro Industry	170,736	7.5%	600 7.5%
Electro-Mechanical	171,882	7.5%	604 7.5%
Construction Materials	967,121	42.2%	3,396 42.2%
Chemical and Parachemical	517,937	22.6%	1,819 22.6%
Total Industry aided by OOI 1984-88	2,291,755	100.0%	8,047 100.0%

Sources: OOI - First 5 Years Report - 1983
and OOI Annual Reports from 1984 thru 1988

ANNEX 6.H

BUSINESS AND PROFESSIONAL ASSOCIATIONS

Morocco has an abundance of professional and business associations. According to the 1987/1988 Kompass Directory, there were 90 of these associations which can be listed as "operational" (claiming at least an address and phone contact); these are distributed among 14 categories, ranging from agricultural producers, builders, engineers, insurance, textile manufactures, food processors, traders, IMMEs (Mines, Metal, Mechanical and Electrical Industries), and wood, leather and paper industries.

The associations defend the specific interests of their membership on a local or national level but often these associations simply grouping of a few large enterprises.

The more dynamic and larger associations/federations represent their membership at inter-ministerial commissions when issues related to the grouping's objectives are debated, i.e. production costs, import duties, labor code and tax burdens. Members generally pay a modest annual fee ranging from 500 DH to 5000 DH.

ANNEX 6.H

A.M.I.T.
ASSOCIATION MAROCAINE DES INDUSTRIES TEXTILES

Nombre d'adhérents: 450.000 DH
Budget Théorique: 500.000 DH
% Cotisation non perçues
avec arrière de 4 à 5 ans: 40 % (situation Nov. 89)

Rôle:

. Information

- d'ordre général: Nouveautés et changements dans le contexte institutionnel (loi, réglementation, études économiques et financières)
- d'ordre technique:
 - . évolution des différentes branches intégrées en amont et en aval,
 - . fluctuations des prix de la matière première au niveau national et international,
 - . développement techniques des produits et matériaux,
 - . quotas et contingents à exportation,
 - . mode de gestion efficace.
- d'ordre promotionnel
 - . diffusion d'informations de rapports d'étude réalisés par des institutions de promotion: CMPE, ODI, CGEM, MCI, ...
 - . organisation de Foires Nationales et Internationales
 - . mise en relation commerciale
 - . Bourse de sous-traitance

. Représentation auprès des instances administratives pour la défense des intérêts de la profession et son développement

Actions Réalisées

- Augmentation en quantité et qualité des taux d'encadrement de la branche:
 - . Insertion depuis 2 ans dans les programmes de Formation Professionnelle (Institut de Technologie Appliquée - ITA -): Coupeur, clef de ligne, ouvriers spécialisés
 - . Mise en action d'un projet d'Institut de Formation d'Ingénieurs en Textile.

. Suivi des contingents des exportations vers la CEE. L'AMIT s'est engagé en 1989 en substitution au MCI et à l'Administration des Douanes de fournir à la CEE les plafonds de contingents avec un délai record malgré la faiblesse des moyens dont elle dispose.

. Situation précise sur les sociétés exportatrices directement ou en (sous-traitances).

Limites et Contraintes

- Budget limité pour une action globale et spécifique sur toutes les branches du secteur.
- Concentration des actions majeures sur Casablanca et Rabat et faiblement sur Fes et Tanger. (De ce fait une association indépendante a connu le jour à Tanger).
- Faible taux d'encadrement au niveau de l'AMIT, (actuellement, L'AMIT est sans secrétaire Général).
- Promotion de groupe sans succès dû à un manque de professionnalisme des industriels (avortement de "Moroccan Association of Trader initié par l'IESC, et de quelques missions d'affaires).

Objectifs à Atteindre et Propositions

- Actions de sensibilisation auprès des membres sur la nécessité de groupements.
- Actions commerciales et marketing auprès des non-membres et auprès du secteur informel.
- Actions au niveau de la formation.
- Extension des moyens informatiques et de taux d'encadrements pour la constitution d'une banque de données.
- Recenser les besoins réels par branches.
- Orienter les actions de réorganisation et restructuration de la PMI.
- Essayer de réduire la faiblesse de l'intégration interbranche en créant une bourse nationale de marches.
- Trouver une solution pour le problème des quotas avec la CEE (85% des tissus rentrant dans la fabrication des produits contingentes sont d'origine européenne, le tissu local ne rentre que pour 15%
- Stat. Oct. 89 -).

- F.I.M.M.E. -
FEDERATION DES INDUSTRIES METALLURGIQUES
MECANIQUES ET ELECTRIQUES

Nombre d'adhérents: 140

% Cotisation non perçues
avec arrière de 3 ans: 30 à 40 %

Rôle:

. Information

- d'ordre général: Nouveautés et changements dans le contexte institutionnel (loi, réglementation, études économiques et financières)
- d'ordre promotionnel
 - . diffusion d'informations de rapports d'étude réalisés par des institutions de promotion: CMPE, ODI, CGEM, MCI, ...
 - . organisation de Foires Nationales et Internationales
 - . mise en relation commerciale
 - . Bourse de sous-traitance

. Représentation de la profession auprès des Pouvoirs Publics et défense et protections des intérêts des membres auprès des instances concernées.

Actions Réalisées

- Meilleure connaissance du secteur (opportunités/contraintes) jusque là évoluant dans l'anonymat par la réalisation d'études sectorielles.
- Identification et classification des branches (14 groupements) avec création de 5 associations.
- Création d'un laboratoire pour la normalisation et le contrôle de qualité du produit industriel LABOMETAL.
- Révision des indices de salaires (datant depuis 1974), par branche d'activité.
- Organisation du premier salon marocain des IMME (SALIMME)
- Edition et diffusion d'annuaire sectoriel
- Promotion et apprentis au niveau ITA: fonction professionnelle

Limites et Contraintes

- Manque de moyens d'actions:
 - . budget annuel très faible
 - . faible encadrement: le secrétaire général et 2 secrétaires

- Secteur très diversifié: difficulté de concentrer les actions d'informations et d'assistances
- Difficulté de régulation de marché: fluctuation de prix de 1 à 20
- Existence d'un secteur informel très important

Objectifs à Atteindre et Propositions

- Créer les conditions nécessaires à la consolidation d'une industrie de base en substitution à l'importation en matière d'équipement et de pièces de rechange (+ 6 milliard DH de déficit par an).
- Etablir avec la collaboration du MCI les normes de fabrication des produits industriels.
- La restructuration du secteur informel pour créer un cadre de compétition approprié.

FEDERATION NATIONALE BATIMENTS TRAVAUX PUBLICS

Nombre d'adhérents: 500

Budget Théorique: 500.000 DH

% Cotisation non percues
avec arrière de 2 ans: 60 %

Rôle:

. Information

- d'ordre général: Nouveautés et changements dans le contexte institutionnel (loi, réglementation, études économiques et financières)
- d'ordre promotionnel
 - . diffusion d'informations de rapports d'étude réalisés par des institutions de promotion: CMPE, ODI, CGEM, MCI, ...
 - . organisation de Foires Nationales et Internationales
 - . mise en relations commerciales
 - . Bourse de sous-traitance
- d'ordre technique:
 - . évolution des différents branches intégrées en amont et en aval,
 - . fluctuations des prix de la matière première au niveau national et international,
 - . développement techniques des produits et matériaux,
 - . quotas et contingents à exportation,
 - . mode de gestion efficace.

. Représentation auprès des Pouvoirs Publics

Actions Réalisées

- Mise en place d'un projet de la réorganisation de la branche:
 - Classification par:
 - . dimension
 - . technicité
 - . type de travaux
- Action de sensibilisation auprès des Administrations (Habitat, Intérieur, Equipement, Plan).
- Organisation de séminaire de formations.
- Mise en relation avec partenaires étrangers.

Limites et Contraintes

- Moyens très limités.
- Problème de regulation du marché: le marché a une tendance d'évolution vers l'anarchie au lieu de progresser vers la structuration et la normalisation.
- Organisation de séminaires se font à des prix prohibitifs, excluant la PME (seul la grande entreprise en bénéficie).
- Manque de moyens pour la vulgarisation de la formation.

Objectifs à Atteindre et Propositions

- Organisation de la profession (la promulgation de la loi de classification et de qualification de l'entreprise et la taille de projets), par la normalisation du secteur et les loi de marché.
- Création d'une taxe de la profession 1/1000 ou 1/10000 pour chaque marché fait au compte de l'Etat.
- Encourager et entretenir les écoles de formation de base des métiers à la base du Batiment.

ANNEX 7

THE ROYAL LETTER AND THE PRIME MINISTER'S FOLLOW-UP LETTER

Investissements nationaux et étrangers

**Lettre adressée par S.M. Hassan II
à M. Azeddine Laraki, Premier ministre,
relative à la procédure concernant les investissements**

Un Conseil du gouvernement s'est tenu mercredi 21 juin sous la présidence du Premier ministre, le Dr Azeddine Laraki, qui a procédé à la lecture du texte de la lettre royale adressée par S.M. le Roi Hassan II au Premier ministre du gouvernement de Sa Majesté et contenant les Hautes Directives du Souverain concernant les investissements nationaux et étrangers. Le Conseil a ensuite examiné les moyens et la procédure d'exécution des Hautes Directives Royales, concernant les investissements et les mesures adéquates pour leur application. Voici le texte de cette lettre.

« Monsieur le Dr Azeddine Laraki,
Premier ministre,

« Le développement économique a toujours été et demeure au centre de Nos préoccupations. Il est tout à la fois le reflet du niveau intellectuel et culturel de notre société et l'un des éléments moteurs de sa promotion et de sa prospérité. Nous avons tôt compris que quel que soit l'effort de l'Etat, Notre but ne pourra être pleinement atteint que par un apport massif du secteur privé dont l'intervention sous forme notamment d'investissements financiers et de savoir-faire constitue l'une des bases de l'essor souhaité.

« Très tôt aussi, Nous avons compris que cette intervention du secteur privé ne pouvait se réaliser que si elle était encouragée et assurée d'un minimum légitime de succès.

« A cet effet, Nous avons pris et fait prendre de multiples mesures dont l'ensemble forme nos codes d'investissements.

« Les avantages accordés par ces codes sont à l'évidence autant d'éléments incitateurs qui n'ont pas manqué de produire leurs effets.

« Eu égard cependant à ce que représentent les avantages ainsi consentis, le Maroc demeure encore loin d'obtenir tout ce qu'il pouvait légitimement et raisonnablement en attendre.

« Cette inadéquation a sa cause principale dans les multiples procédures

administratives, certes nécessaires, mais souvent génératrices de lenteurs qui finissent par décourager les investisseurs les mieux intentionnés et les plus déterminés. Les dossiers, même complets, demeurent des mois dans les divers services sans que leurs titulaires soient informés du sort qui leur est réservé.

« Notre économie ne peut que souffrir de ces errements qui vont à l'encontre de Notre animus.

« Aussi avons-Nous décidé d'y mettre un terme. Désormais, tout dossier régulièrement constitué, contenant un projet d'investissement, sera censé avoir obtenu l'accord de l'administration si celle-ci n'y donne aucune suite dans le délai de deux mois à compter du jour de son dépôt.

« En cas de rejet, la décision de l'administration devra être dûment motivée.

« Cette mesure, d'application immédiate, figurera désormais parmi les dispositions de tous nos codes d'investissements où elle sera insérée.

« Mais dès à présent, elle fera l'objet d'une circulaire du Premier ministre pour être portée à la connaissance de tous les agents de l'Etat. Elle sera portée également à la connaissance du public par tous les moyens appropriés. »

**HASSAN II
Roi du Maroc**

Investissements : mise en œuvre des Hautes Directives Royales

Le Premier ministre adresse une circulaire aux administrations :

Un changement radical des méthodes et des procédures

Le Premier ministre, le Dr Azeddine Laraki, a adressé le 21 juillet dernier aux membres du gouvernement de S.M. le Roi une circulaire relative à l'application de la Lettre Royale en date du 14 juin 1989 relative aux Investissements.

Voici le texte intégral de cette circulaire :

• Sa majesté le Roi a bien voulu annoncer dans sa Lettre au Premier ministre en date du 14 juin 1989, l'entrée en application immédiate de Sa Haute décision concernant le délai de réponse de l'administration aux projets d'investissement qui lui sont soumis.

• La mise en œuvre des Hautes Directives Royales implique un changement radical des méthodes et procédures de l'administration et du rôle des autorités administratives dans l'application des dispositions régissant les investissements.

• La présente circulaire a pour objet de porter à la connaissance des administrations publiques la Haute Décision Royale et les modalités de son application.

• Outre l'application immédiate des prescriptions relatives au délai, les autorités administratives concernées, aussi bien à l'échelon central que provincial ou local, qu'il s'agisse des départements ministériels, des collectivités locales ou des établissements publics et organismes financiers relevant de leur tutelle, sont appelés à œuvrer à la simplification des procédures administratives en vigueur et à l'apurement des dossiers d'investissement en instance.

I. Prescriptions relatives au délai

1. En attendant que les textes en vigueur soient complétés, conformément à la Lettre Royale, par les prescriptions de délai, les autorités administratives concernées sont invitées à :

• Mettre à la disposition du public des formulaires d'introduction de demande d'autorisation ou d'approbation liées directement ou indirectement à la réalisation des investissements. Ces formulaires doivent indiquer, d'une part, les pièces et documents justificatifs requis pour que les dossiers soient considérés comme étant régulièrement constitués, et, d'autre part, leurs délais d'obtention.

• Délivrer des récépissés attestant la date de dépôt des dossiers et énumérant leurs pièces constitutives.

• Messieurs les ministres veilleront à mettre en œuvre toutes les mesures nécessaires pour qu'un dossier d'investissement, régulièrement

constitué puisse recevoir une suite dans un délai maximum de deux mois à compter de sa date de dépôt.

• Il est entendu que lorsque les dispositions législatives ou réglementaires en vigueur prévoient un délai inférieur à deux mois, il sera observé scrupuleusement.

2. A l'expiration des délais visés dans le paragraphe 1 ci-dessus, et à défaut de réponse, le requérant considérera que l'autorisation ou l'approbation lui est acquise de plein droit.

3. La décision de rejet de l'autorisation ou de l'approbation est notifiée à l'investisseur par écrit et sera motivée par référence aux dispositions législatives ou réglementaires en vigueur.

• Lorsque l'investisseur conteste une décision de rejet, il pourra saisir le Premier ministre pour un nouvel examen de son dossier.

• Le Premier ministre fera connaître sa réponse au requérant après consultation du ou des ministres concernés.

II. Mesures de simplification des procédures

• L'application des Hautes Directives Royales implique l'élaboration d'un cadre législatif ou réglementaire à même de codifier l'intervention de l'Etat et de ses démembrés dans le processus d'investissement, de façon à en éliminer les pesanteurs et les démarches superflues et à la rendre aussi transparente que possible.

• A cet effet, Messieurs les ministres sont appelés à :

• Dresser l'inventaire des autorisations ou approbations nécessaires à la réalisation d'un projet selon l'itinéraire propre à chaque type d'investissement.

• Proposer des mesures de simplification des procédures en vigueur et notamment sous forme de réduction des délais, de suppression de formalités et pièces superflues.

• Instituer auprès d'eux une cellule spécialisée chargée du suivi des dossiers d'investissement.

• L'inventaire des propositions et des mesures précitées doivent me parvenir au plus tard le 1^{er} octobre 1989.

• Le ministre délégué chargé des Affaires économiques procédera à l'examen de ces propositions en vue de leur harmonisation en concertation avec les ministres concernés.

• Les mesures de simplification ainsi arrêtées feront l'objet de textes à élaborer par les autorités compétentes.

III. Suivi des investissements à l'échelon provincial

• Dans le cadre des attributions dévolues par la législation en vigueur aux gouverneurs de Sa Majesté le Roi, il sera institué un comité auprès de chaque gouverneur de préfecture ou province où siégeront les représentants provinciaux et locaux des administrations des établissements publics et des institutions bancaires intervenant dans le processus de réalisation d'un projet d'investissement.

• Ce comité se réunira, au moins deux fois par mois, pour examiner les requêtes et demandes des promoteurs et en assurer l'aboutissement.

• Les décisions prises à l'échelon provincial peuvent faire l'objet de recours auprès du ministre concerné par le projet d'investissement.

• En vue de conférer le maximum d'efficacité aux travaux de ce comité, messieurs les ministres délégueront à leurs représentants provinciaux siégeant en son sein les pouvoirs nécessaires à la prise de décision et à l'accomplissement de leur mission dans les meilleures conditions.

IV. Apurement des dossiers en instance

• Les dossiers d'investissements en instance doivent recevoir une réponse dans un délai de deux (2) mois à compter de la date de la présente.

• Tout rejet sera motivé sur la base des dispositions législatives ou réglementaires en vigueur et sera notifié par écrit au requérant. Une copie de la décision de rejet me sera transmise.

• Messieurs les ministres sont priés de veiller personnellement à la bonne exécution des prescriptions de la présente circulaire et d'en assurer la plus large diffusion tant auprès de leurs services que du public, par tous les moyens appropriés.

Signé :

Le Premier ministre
Dr Azeddine Laraki

RECOMMANDATIONS RELATIVES AUX
CONTRAINTES ADMINISTRATIVES

I. PROCESSUS DE CREATION

1. Résumer toute la procédure dans un seul formulaire
 - a. certificat négatif
 - b. immatriculation au registre du commerce
 - c. inscription à la patente (avec déclaration automatique auprès de l'Administration Fiscale)
 - d. couverture d'un compte bancaire
 - e. désignation d'un domicile (provisoire)
 - f. inscription à la CNSS
2. Affecter un numéro unique au dossier de création au service dans toutes les étapes suivantes / voir la vie de la PME.
3. Prévoir une diversité de guichets uniques.
4. Possibilité d'envoi postal du dossier de création sans nécessité de se présenter aux guichets.
5. La seule réception du numéro d'identification signifie l'existence juridique de la société.
6. Les procédures statutaires doivent être présentées une seule fois au tribunal pour l'enregistrement.
7. Mettre à la disposition du public des statuts-modèles pour chaque type d'associations (SA, SARL, SCS, SNC, coopératives) avec un tableau synoptique des avantages et des inconvénients de chaque cadre sur les différents plans; fiscal, commercial, civil, pénal.

II. PROCESSUS DE FONCTIONNEMENT

1. Aspect Fiscal

- a. Simplification des formulaires à remplir lors de la déclaration:
 - Bilan: documentation exhaustive et pénible
 - TVA: travail fastidieux des tableaux récapitulatifs des activités
 - CNSS: simplification des méthodes de remplissage des bordereaux.

Objectif

Alléger la gestion administrative de l'impôt.

- b. Alléger la pression fiscale pour faciliter la transparence et éviter les glissements massifs vers le secteur informel.

- c. L'administration fiscale devra justifier le rapport des taxations de contrôle et le soumettre au promoteur de la PME pour contre-expertise.
- d. Eviter les timbres de dimension
e ..
- e. Eliminer les authentications et légalisations sur tout document officialisé par l'administration ou notifié par les experts et notaires assermentés (statue, DSV, carte nationale, extrait d'acte de naissance).

2. Aspect Administration et Gestion

- a. Protéger les actionnaires non majoritaires contre les abus.
- b. Protéger les gérants contre les aléas fiscaux en assurant une séparation claire entre le patrimoine professionnel et le patrimoine personnel.
- c. Simplifier le code du travail pour rendre l'embauche/débauche plus aisée et ainsi lever la psychose chez le promoteur de la PME des poursuites juridiques.
- d. Lever les poursuites fisco-juridiques contre les sociétés en faillite et mettre sous surveillance pour restructuration ou liquidation par des cellules de conseil crédibles.

3. Aspect Investissement

- a. Substitution du dossier d'investissement par un formulaire type disponible dans le public.
- b. Elimination du système des 20 exemplaires.
- c. Procéder au déclenchement automatique des avantages sans que l'investisseur ait à déboursier (pour faire des gains de trésorerie au niveau du démarrage).
- d. Tous les remboursements au niveau du code des investissements doivent être considérés comme des crédits à l'impôt au-delà de la période d'exonération.
- e. Faire bénéficier le promoteur d'un dégrèvement automatique sur les charges patronales en compensation de la prime d'emploi sans faire perdre aux ouvriers concernés les avantages sociaux.
- f. Faire construire des zones industrielles par les collectivités locales, et les mettre en location pour permettre au promoteur de faire une économie importante sur le coût d'investissement relatif à l'achat du terrain.

ANNEXES

PART II

THE STUDY

ANNEX 8

THE SCOPE OF WORK

Statement of Work
for
Initial Studies
As a Basis for a
Project Identification Document
for the
New Enterprise Development Project, 608-0204

I. Background:

Included in USAID/Morocco's Action Plan of May 1989, and approved by AID/W, is a New Project Description for a "New Enterprise Development Project" (608-0204). The project will assist the start-up, expansion, and restructuring of Small and Medium-Size Enterprises (SME's)(*), as defined by criteria of the Moroccan economy.

Of all the issues raised during the recent Private Sector Survey in interviews with a cross-section of individuals familiar with the private sector, none was made so convincingly as the need to facilitate the creation of new enterprises. The relevance of new enterprise development to employment generation is apparent; there is no greater economic-social problem in Morocco (indeed, in North Africa generally and in varying degrees throughout the third world) than the imbalance caused by the ballooning surplus of unemployed

(*) References in this text to new enterprise creation shall be understood to include, as well, the restructuring or expansion of existing small and medium size enterprises.

persons in relation to jobs available. New Enterprise Development directly addresses this problem, while at the same time offering opportunity to the increasing numbers of qualified educated persons with entrepreneurial talent but without privileged position, who presently are frustrated by the obstacles to realizing their potential. The Mission therefore considers New Enterprise Development to deserve first choice for a new private enterprise project.

A prerequisite for preparing a project identification document (PID) will be research into the following topics:

1. Presently available assistance to entrepreneurs.
2. Financial constraints to establishment of new enterprises and to employment creation by these enterprises.
3. Administrative, regulatory, and legal constraints to the establishment of new enterprises and to employment creation by these enterprises.(+)

The new project, as presently conceived, may also include a research component directed towards the informal sector; this would probably be carried out as a distinct subproject. This subject is not included in the above pre-PID Agenda. Basic information on the Informal Sector is already on hand via Professor Salahdine of the University of Fes, who is further developing it as a sequel to his recent attendance at international meetings funded by AID/W. Some aspects of the informal sector will be covered by a study soon to be conducted under the "Economic Policy Analysis Support Project", in cooperation with the Ministry of Planning. The results of this work will be one of the determinants in deciding later this year on the possible inclusion of informal sector research as a sub-project in the New Enterprise Development project. A possible visit to Morocco by Dr. Hernando De Soto, might also help decide this question.

(+) References in this text to "administrative constraints" shall be understood to include, as well, regulatory and legal constraints.

Several ministries of the Government of Morocco (GOM) have expressed interest in USAID assistance in facilitating new enterprise formation. The Ministry of Economic Affairs (MEA) has recently been exploring the subject. They welcome USAID's interest as a timely initiative; they had already requested USAID's assistance on a study of new investment projects in Morocco. The Ministry of Planning has been engaged in research into the Informal Sector. One of their senior officials has co-authored a private study of new project development in Morocco which includes a detailed analysis of the obstacles to new enterprise formation. The Ministry of Commerce and Industry (MCI) has done related studies. MCI is also initiating a program for improving the effectiveness of Chambers of Commerce, using the Casablanca Chamber as a model, and has suggested that the chambers could be of assistance to a new enterprise development program. The Ministry of Economic Affairs, and other ministries, would assist the consultants through introductions to sources of information and advice.

A number of professional firms in Morocco are familiar with the requirements for establishing a business in Morocco. Bankers, entrepreneurs, independent accountants, professionals, and Chamber of Commerce officials, closely familiar with the subject, are among the Mission's contacts whose knowledge and opinions can be available to the consultants.

II. Purpose:

The purpose of the "available assistance" study is to catalogue and assess the strengths and weaknesses of programs which are already in place or planned, to stimulate new enterprise formation in Morocco.

The purpose of the financial obstacles study is to determine the extent to which lack of financial resources is inhibiting the creation and development of small and medium-size enterprises.

The purpose of the administrative obstacles study is to determine the extent to which administrative, regulatory, and legal requirements are inhibiting the creation and development of small and medium-size enterprises.

III. Scope of Work:

1. Activity to be undertaken: The contractor will arrange for an eight week study of the existing constraints to establishment of new private sector enterprises in Morocco.

2. Team Members and Responsibilities:

It is assumed that the work will require a three-person team, consisting of a Team Leader, an International Financial Specialist familiar with new business financing in Morocco, and a Specialist on Administrative, Regulatory, and Legal Obstacles to establishment of new enterprises. The latter specialist shall be a Moroccan who is familiar with these subjects as well as the processes of new business establishment in Morocco. The team shall investigate the obstacles to establishing new enterprises in Morocco, as a basis for a preliminary determination of the feasibility of initiating a New Enterprise Development Project. These services shall be performed over a period of eight weeks starting in mid-October 1989, for a total level of effort of 117 workdays. Individual scopes of work for these three team positions are as follows:

A. Team Leader: This person shall serve as the team spokesperson in Morocco responsible for overall team logistics, coordination, and written and oral presentations. This person shall arrive in Morocco in late October, departing in early December for a total of 40 workdays including international travel time. The team leader shall be required to assess the feasibility of a proposed project, if justified by the analysis, and to develop a preliminary description of recommended project activities. In order to accomplish this, the work required of this person shall be as follows:

i. In consultation with Mission staff and the Ministry of Economic Affairs, prepare a team workplan and schedule for successfully completing this Scope of Work. The workplan shall include a clear definition of responsibilities among team members. The schedule shall include meetings with USAID staff and the Ministry of Economic Affairs, also with other COM officials as well as private sector individuals in Rabat and Casablanca. It shall also include deadlines for preparation of a draft report and a final report, and for staff de-briefings. (A team activity schedule is provided in Section IX below).

ii. Represent the team at meetings and briefings with USAID and the Ministry of Economic Affairs.

iii. The team leader shall be responsible for preparing the following analyses:

(a) An examination of the financial constraints to establishment of new enterprises in Morocco (and to employment creation by these enterprises) including the constraints to availability both of equity capital and debt financing. (Background work to be done by financial specialist).

(b) An examination of the administrative, regulatory and legal requirements (files, forms, clearances, schedules, etc) to establishment of new enterprises in Morocco and to employment creation by these enterprises. (Background work to be done by administrative obstacles specialist).

(c) A summary of the most important obstacles to new enterprise formation in Morocco and to employment creation by these enterprises. (Task of the Team Leader).

(d) An assessment of existing sources of assistance to entrepreneurs, in both the public and private sectors. (This information, to be assembled by all members of the team, for synthesis by the team leader).

(e) An assessment of the feasibility of assisting the formation of a GOM-approved independent private organization to assist entrepreneurs in the creation of new enterprises. (task of the Team Leader).

(f) Conclusion regarding the need for and most feasible approaches to developing a New Enterprise Development Project in Morocco at this time. The analysis should also indicate those areas where information is insufficient to enable conclusions, and the actions required to obtain this information in a timely and cost-effective manner. (Task of the Team Leader)

iv. Based on the results of the analysis outlined in task v above, and in consultation with other team members, the team leader shall prepare a preliminary description of a proposed project intervention designed to address the constraints outlined above and assist the development of new enterprises in Morocco. The project description shall include at least the following components:

(a) Recommended Inputs: a preliminary estimate of the levels and types of recommended project technical assistance, training, commodities, resource management works, studies and research, and evaluation and monitoring requirements, together with the estimated costs for each. To the greatest extent possible, the description should include a clear rationale justifying the need for each of the recommended inputs, their recommended levels and the prospective sources of these goods and services (e.g., local vs. expatriate, "in-house" vs. consultant services, etc.)

(b) Anticipated Outputs: assuming the inputs recommended in (a) above are provided in a timely and effective manner, a clear description of the types of outputs which would be anticipated to result (e.g., desired changes in the financial system, desired changes in administrative, regulatory, and legal requirements, in services available to entrepreneurs, etc.). As both the type and quantity of project outputs will necessarily vary according to the characteristics of the particular selected target area(s), comprehensive qualitative description of potential project outputs will be more important here than quantitative estimates.

(c) Expected End of Project Status (EOPS): Assuming that the outputs listed in (b) above are in fact realized as planned, present a clear description of the expected end of project status with an explanation of how this relates to the project purpose of improved new enterprise formation in Morocco. This could include a decrease in the length of time and cost of creating new enterprises; increasing the availability of financing, particularly equity financing, to new enterprises; and increasing services to entrepreneurs.

v. Identify and describe any outstanding technical issues which might affect the successful implementation of the project described in task iii. above.

vi. Prepare a comprehensive listing of additional information required to successfully complete the analysis and design of the proposed project, together with scopes of work and qualifications/experience criteria for any consultant assistance required in this behalf.

vii. With the assistance of other team members, prepare a draft report, including the results of all the above tasks, prior to departure from Morocco. Submit final report within two weeks of return to USA.

B. International Financial Specialist: this team member shall be required to assess the financial obstacles to new enterprise formation in Morocco at this time, and if justified by the analysis, to estimate the feasibility of a proposed project. This team position shall entail a total of 40 workdays during the period from late October to early December 1989. During this period this team member shall be required to complete the following tasks:

1. Review relevant background information and interview USAID and GOM staff and private sector individuals as required to gain all available information regarding financial obstacles to establishment of new enterprises in Morocco.

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ii. This analysis shall include at least the following parts:

(a) Type and extent of financial services presently available to assist formation of new small and medium-sized enterprises. This examination shall quantify financing made available for new ventures, by type of financing (e.g. debt financing and the role of collateral, equity financing). Since only well-established enterprises have access to the stock market, this analysis shall explore the sources of equity financing for new ventures off the stock market.

(b) Assistance, ongoing or planned, from GOM and other donors (and other non-Moroccan organizations, if any) to financially assist new enterprise formation in Morocco. This shall include a commentary on GOM's financing programs through the banks (e.g. Crédit Moyen Termes, Fond pour les Jeunes Promoteurs, Banque Nationale pour le Développement Economique (BNDE), Office du Développement Industriel (ODI), etc.), any recent financial initiatives by the banks to facilitate creation of new enterprises, also any venture capital initiatives (e.g. the recently announced EEC and Belgian programs).

(c) The extent to which GOM's and other laws and regulations inhibit availability of financing of new enterprises in Morocco.

iii. Based on the results of the above, provide:

(a) Recommendations regarding the most advantageous potential interventions (e.g. working through existing financial institutions, establishing an investment company or other new organization for the purpose, working in conjunction with GOM, or an entirely private basis, utilizing funds resulting from savings of Moroccan workers abroad (TME) via Banque du Travail, BDCL, etc.)

(b) Conclusions regarding whether or not a project initiative to reduce financial obstacles to new enterprise formation, and particularly to provide equity financing, is practical in Morocco at this time.

iv. Work with the other team members towards the timely completion of a draft team report, including the results of the above tasks, prior to team leader's departure from Morocco.

C. Specialist on Administrative, Regulatory, and Legal, Aspects of Enterprise Formation: This team member shall be required to assess the administrative, regulatory, and legal obstacles (files, forms, clearances, schedules, etc) to establishing, expanding, or restructuring a small or medium-sized business in Morocco at this time, and if justified by the analysis, to estimate the feasibility of a proposed project to remedy the problem. This position shall entail a total of 37 workdays, all of which will be spent in Morocco, between mid-October and early December 1989. Duties will entail completion of the following tasks:

i. Identification of key individuals in Morocco (particularly in Rabat or Casablanca) in both the public and private sectors, who are familiar with the administrative constraints.

ii. Identification of institutions and offices which promulgate, implement or enforce requirements at the local, provincial or central levels.

iii. Review relevant background information, and interview staff of USAID, the Ministry of Economic Affairs, and other local experts (including fiduciaries and notaries) as required to gain all available information regarding the non-financial requirements to new enterprise creation in Morocco and the extent to which these are hindering formation of enterprises.

This analysis shall include:

(a) A discussion of the implications of the regulations governing new enterprise formation in Morocco.

(b) Identification of institutions and offices which promulgate, implement, or enforce requirements at the local, provincial, or central levels. Discussion of their official and unofficial relationships with small and medium-size enterprises (PME's) and how they constrain or stimulate PME activity.

(c) Determination of the average length of time required to create a new business. This shall include a commentary of actual and anticipated effects of the "two-month rule" announced in the royal directive of June 14, 1989.

(d) Identification of requirements which appear to be outdated, unnecessary, or particularly difficult to meet.

(e) An assessment of existing sources (in both the private and public sectors) of assistance to entrepreneurs, including any recent efforts by GOM or other donors to facilitate administrative approval for new enterprises.

iv. Based on the results of the analysis outlined in task i above, determine whether it is feasible to develop a project to reduce administrative, regulatory, and legal obstacles to new enterprise creation.

v. Prepare a comprehensive listing of additional information required to successfully complete the analysis and design of this project, together with scopes of work and qualifications/experience criteria for any consultant assistance required in this behalf.

vi. Work with the other team members towards the timely completion of a draft team report, including the results of all of the above tasks, prior to team leader's departure from Morocco.

IV. Reporting Requirements:

1. The team leader shall prepare a preliminary draft report at the end of the field work, to be jointly reviewed by USAID and the Ministry of Economic Affairs. Within five days of receipt of USAID comments, the team leader will submit a revised draft report in English and French (10 copies). This report shall be in three parts: The first part shall provide an executive summary of the findings (five to ten pages). The second part shall provide details on

the analysis of constraints. The third part is a preliminary description of a proposed project. The team leader will submit a final report (30 copies) within two weeks of final return to USA.

V. Qualifications of Consultants

The studies shall be conducted by a team of three consultants. The team leader (40 days) shall be an experienced project development consultant, skilled in team coordination, analysis and reporting, familiar with Morocco and preferably also with AID; the second person (financial specialist, 40 days) shall be a senior individual, experienced in international finance, who is thoroughly familiar with ways of doing business in the francophone world and who is cognizant of the Moroccan banking system and financial markets, as well as new business formation and the status of equity financing in Morocco; the third person (administrative, etc. specialist, 37 days) shall be thoroughly familiar with the administrative, regulatory, and legal aspects of new business formation in Morocco. Consultants, with the exception of the team leader, shall have minimal qualifications in French at level FS/S4-K4. The studies shall take no more than 22 person weeks, including drafting reports.

VI. Logistic Support:

➤ The Ministry of Economic Affairs and USAID will assist in arranging meetings with government officials (Ministries of Commerce & Industry, Planning, Finance etc.), with private sector organizations and individuals (in banks, corporations, chambers of commerce, professional firms), with any local USAID consultants familiar with the subject, also with individuals of various backgrounds who are known to be knowledgeable on the subjects being investigated and some of whom may represent a constituency for support of a New Enterprise Development Project.

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VII. Travel:

It is anticipated that the contractor will be authorized two round trip fares (economy class and, wherever possible, excursion fare) from Washington, D.C. to Rabat.

VIII. Relationships and Responsibilities:

With respect to the status and progress of work, contractor personnel shall report to the Private Enterprise Office of USAID and to the Ministry of Economic Affairs, while carrying out the contract work in Morocco.

IX. Period of Performance:

The work described in Section III shall be performed within a total period of eight weeks, extending from mid-October to early December 1989 . A six-day work week is authorized for the team leader and the financial specialist while in the field. It is assumed that holidays during the eight week period will be on November 6, 10, and 23, none of which are counted as workdays. International travel time is included as two workdays per person.

The team leader shall TDY to Rabat in late October to meet with USAID and the Ministry of Economic Affairs, also to provide guidance and instruction in the form of a written work plan immediately for the other team members. The Moroccan specialist will start work on day 1 in mid-October carrying out tasks Ci, Cii and part of Ciii (page 9) through day 5 under the direction of USAID and the Ministry of Economic Affairs. The team shall carry out the greater part of the work plan between days 12 and 28. The team will brief the Ministry of Economic Affairs and USAID staff on preliminary findings and recommendations on day 29, then prepare a preliminary draft report for submission to USAID by day 34 for review and comment. Between day 35 and day 39 the team leader, assisted by the two specialists, shall review the draft report, for submission to USAID by day 40. The team leader, assisted by the

other team members, between day 41 and day 44 shall revise the report based on comments received from USAID. The team leader and the financial specialist will depart Morocco on day 45, in early December. A final report, in English, will be submitted within two weeks of return to USA.

Subsequent to departure of the team, at the latest within four weeks of receipt of the final report, USAID will arrange for a French translation of the final report to be submitted to appropriate GOM officials.

The schedule is outlined below:

<u>Day</u>	<u>Activity</u>
1-5	Administrative Specialist, meeting initially with USAID and the Ministry of Economic Affairs, Reviews background information and initiates identification of individuals and organization (Tasks Ci, Cii, and part of Ciii, page 9).
6	Team Leader and Financial Specialist travel to Morocco.
7	Team meets with USAID and Ministry of Economic Affairs staff in Morocco
8-11	Team Leader arranges logistics, schedule, and finalizes team workplan in consultation with USAID and Ministry of Economic Affairs, and with the team members who establish initial contacts with key individuals in GOM and the private sector.
12-28	The Team Leader and the two specialists review available information, conduct meetings and interviews.
29	Brief staff of the Ministry of Economic Affairs and USAID on preliminary team findings and recommendations.
29-33	Write preliminary draft report(s), continuing meetings and interviews as necessary.
34	Present preliminary draft report(s) for USAID and Ministry of Economic Affairs for review and comment.
35-39	Prepare revised team report.

- 40 Present revised draft team report to staff of the Ministry of Economic Affairs and USAID.

- 41-44 Team Leader, assisted by other team members, completes revised team report and presents to Ministry of Economic Affairs and USAID.

- 45 Team Leader and Financial Specialist depart Morocco.

Rev. August 29, 1989

ANNEX 9

STUDY STRUCTURE

ANNEX 9.A

STUDY METHODOLOGY

The study team consisted of:

1. **The Team Leader:** an expert in small and medium-scale enterprise formation procedures, including previous experience with AID in setting-up of "one-stop" investment centers;
2. **The consultant in business management - accountant and fiduciary:** a Moroccan national with an office in Rabat and significant experience with the problems of SME in the creation stage;
3. **The expert in SME financing and banking relations problems;** and
4. **The consultant in business management:** a Moroccan national, awaiting appointment as a staff member of the re-structured Chamber of Commerce for the Casablanca area. He previously worked with AID on the CRS project for the Development of Small Enterprises in the Casablanca area.

STUDY ACTIVITIES:

The team examined the present constraints and obstacles to the establishment and expansion of SME in Morocco. Issues examined included the:

- Registration and the fulfillment of all the required legal formulas and permissions to create the business;
- Definition and delineation of a credible business plan;
- Creation of a "dossier" for the enterprise including all of the information required to request financing;
- Financing of the enterprise, including both building and equipment requirements, and working capital; and
- Business support services to aid enterprises in finance and expansion.

METHODOLOGY:

The methodology for the study consisted of the following phases:

Phase I:

Review of documents published by the various agencies which have a pivotal role in the promotion of the SME sector. Review of previous studies conducted included examination of:

- * World Bank reports on BNDE loan projects,
- * F.R.G.'s t/a experience working within the ODI
- * The study by the University with the Planning Director of the Ministry of Plan as co-author
- * Published results from the Department of Sciences round-table with the Banking sector
- * Documents gathered by the AID/PRE office from AID/PRE experience with other programs in other countries

Phase II:

Meetings with the Moroccan Government Officials, Ministries, and Agencies which deal with SME problems, including:

Chambre de Commerce et de l'Industrie a Casablanca
Ministère des Affaires Economique - USAID's main coordinator
Ministère du Commerce et de l'Industrie - Directorate Etudes
Ministère de Finance - Administratively involved with the
SME because of Tax Collection and other Fiscal matters
Ministère de Justice
Registre du Tribunal de premiere instance
Ministère du Plan - Le Directeur de la Planification
Ministère du Travail
Affiliation a la Caisse Nationale de Sécurité Sociale
Registre Centrale de Commerce a Casablanca
Service d'Enregistrement et de Timbre -
Sousdirection des impots urbain du lieu du siege social
Service des Patentes

Phase III:

Meetings for background data in the financial area:

- * Major public banks and institutions involved with SME promotion and industrial sector investments, especially the department heads dealing with SME loans and technical assistance to SME's:

Banque Al-Maghrib
Banque Marocaine du Commerce Exterior
Banque Marocaine pour le Commerce et Industrie
Banque Nationale pour le Développement Economique
Banque Populaire et Crédit Populaire du Maroc
Caisse de Depot et de Gestion
Caisse Nationale de Crédit Agricole
Office des Changes
Office pour le Développement Industriel

- * Private Banks with SME promotion departments, leasing companies, investment companies and private investors, especially the Department Heads dealing with SME loans and assistance to SME:

Banque Commerciale du Maroc (Jeune Promoteur Programme)
Citibank
Crédit du Maroc
Interleasing
Maroc Leasing
Société Générale Marocaine de Banques
Wafabail
WafaBank

Meetings for background data in SME support groups:

- * Chambers of Commerce (Casablanca, Rabat, Marrakech)
- * Industry associations: Textile, Leather, IMME, BTP, ESMEX
- * Vocational schools and designers of their programs
- * Other persons and Moroccan Institutions charged with assistance to the SME sector, and with the industrial development of the country.

Field Research:

* Field Visits and Collection of first-hand information

The team conducted a field research program, designed from the analysis of the industrial sector in Morocco, and skewed towards the areas of greatest growth in SME creation.

Two of the team members visited over 60 enterprises, using a predeveloped questionnaire. The questionnaire was an adaption of the one developed by the authors of the university study. It is included in Annex 9.C. With the questionnaire, the interviews qualified the problems of the SME in their creation and expansion phases. Interviews were held with successful and non-successful entrepreneurs; those in the process of conceptualizing, organizing, legally establishing, and designing their business plan; and those constituting their "dossier", financing, and starting-up their SME businesses. The results of this study were collated into tabular sheets of raw data, from which a report was written.

Coordination with the Moroccan Government:

Weekly progress meetings were held in the Ministry of Economic Affairs with the Office d'Investissement. Mr. A. Bellout head of the directorate of the Ministry chaired these coordinating meetings for the study each week on Monday afternoon at 4 PM.

PRELIMINARY REPORT:

The team has submitted a First Draft Report which identifies and catalogs, as well as quantifies, the problems in creation and expansion of SME's and the promotion of the SME sector. It also identifies and catalogs the present government interventions in promoting the growth of the SME sector, and the types and extent of assistance presently available to assist Moroccan private individuals in the formation of new SMEs.

MISSION DEBRIEFING:

An oral presentation of the findings published in this report were the subject of the mission debriefing meeting, Thursday, December 21st, 1989, at 2 PM. A presentation of the Project Options and concepts was made to the Project Committee of USAID/Rabat on Friday, December 29th at 10 AM.

Annex 9.A

ANNEX 9.B

SURVEY SAMPLE SUMMARY

The Team conducted two separate surveys to gather data: one at the enterprise level in order to identify the types of constraints entrepreneurs face at each phase of enterprise development; the second, at the individual level to obtain a better understanding of the entrepreneur's profiles and his/her ability to manage the enterprise.

The Primary Survey

The field sample included 75 businesses. A questionnaire was administered to each of these businesses. Approximately 80% sufficiently answered the questions for their responses to be included in the report.

The selection of the sample was based on an analysis of the structure of industrial production in Morocco. (See Table 1) The survey targeted industrial sectors with the most growth potential. The survey did not include SMEs in the informal sector, as this was outside the scope of the study. It also did not include other productive sectors, such as fishing, mining, artisanal, and agricultural production. Coverage of the tourism and services sectors was limited. Table 2 shows the construction of the interview sample by sector.

The Secondary Survey

Information from USAID's project with the Catholic Relief Services enabled the team to conduct a secondary survey. The purpose of this survey was to develop a profile of the typical entrepreneur. It focused on SMEs which are currently in business and which could be expected to expand. The total number of enterprises included in the secondary survey was over 120, from which significant data could be extracted from 100; again, close to 80% of the secondary data was significant in terms of the study.

ANNEX 9.B
SURVEY SAMPLE SUMMARY

TABLE 1
1988 CENSUS OF MOROCCAN INDUSTRIAL PRODUCTION

Sec Nos.	Industrial Sectors	Investment DH 000	Growth 1988/87	Employment		Number Establmnt	Average Employment /establmnt
				Growth	Employment 1988/87		
				hundreds			
11,12	Agro-Industry, Food Processing	1,062	31%	960	12%	1433	67
13,14,15	Textiles and Leather	1,296	66%	1,310	16%	1383	95
16,17	Wood and Paper	202	15%	232	5%	547	42
18	Ceramic, Construction material	325	65%	240	-6%	324	74
25,26,27	Soap, Chemicals, rubber, plastics	1,186	12%	338	11%	486	70
19,20	Base Metal Production	333	140%	207	-16%	381	54
21,22,23	Electro-mechanical equipment	248	15%	463	5%	461	100
24,27	Misc Small Production	34	54%	16	10%	54	29
	TOTAL from Min Industry	4,661	32%	3,551	10%	5043	
		4,686		3,766		5069	
	Statistical error	25		214		26	

TABLE 2
SAMPLE SUMMARY
BY INDUSTRIAL SECTOR

	Total Number Establmnts	Employment Growth 1988/87	Average Employment /establmnt	Survey 1 Number Establmnts	Survey 2 Number Establmnts	Total Number Surveyed
Agro-Industry, Food Processing	1,433	12%	67	4	5	9
Textiles	1,383	16%	95	14	22	36
and leather				9	31	40
Wood and Paper and Printing	547	5%	42	3	2	5
Ceramic, Construction material	324	-6%	74		4	4
Soap, Chemicals, rubber, plastics	486	11%	70	6	7	13
Base Metal Production	381	-16%	54			0
Electro-mechanical equipment	461	5%	100	15	27	42
Misc Small Production	54	10%	29			
TOTAL from Min Industry	5043	10%				
Others:						
Services and Tourism				7	2	9
Construction				3		3
Total				61	100	161

ANNEX 9.C

INFORMATION QUESTIONNAIRE

VISITS TO SMALL AND MEDIUM-SCALE ENTERPRISES/INDUSTRIES

ECONOMIC SECTOR:

MARKET INFORMATION LOCAL
EXPORT
IN RESPECT TO COMPETITION

NAME OF COMPANY
ADDRESS

NAME OF ENTREPRENEUR

NAME/NUMBER OF PARTNERS

MANAGER'S NAME
NUMBER OF STAFF
NUMBER OF EMPLOYEES

DATE OF START UP

FINANCIAL DATA

INVESTMENT

TOTAL (NOW AND AT START UP)
INVESTMENT IN LAND AND BUILDINGS
INVESTMENT IN MACHINERY / PERCENTAGE: IMPORTED / NEW
WORKING CAPITAL
SOURCE OF RAW MATERIAL (NON-FINANCIAL DATA)
RAW MATERIAL INVENTORY
MATERIAL IN PROCESS
FINISHED GOODS INVENTORY

METHOD OF FINANCING:
LOANS AND GRANTS
EQUITY CAPITAL

ANNUAL SALES
ANNUAL SALES GROWTH

ANNUAL COSTS
MATERIAL AND PERCENTAGE OF SALES PRICE
WAGES AND SALARIES

PROFITABILITY TC-DATE

COMMENTARY ON PROBLEMS ENCOUNTERED AT START-UP

1. LEGAL
2. FINANCIAL - LOANS, GRANTS, EQUITY CAPITAL
 - A. BANKS /AGENCIES CONTACTED
 - B. RESULTS
3. PROBLEMS WITH PHYSICAL LOCATION
 - LAND AND BUILDING
 - TRANSPORT TO MARKET
4. ADVANTAGE TAKEN OF INVESTMENT CODE INCENTIVES
5. ORGANIZATIONAL ASSISTANCE BY MOROCCAN OR DONOR AGENCIES
6. MANAGEMENT/TRAINING ASSISTANCE BY MOROCCAN/DONOR AGENCIES

COMMENTARY ON POSSIBILITIES/PROBLEMS OF EXTENSION/EXPANSION

1. ADDITIONAL CONCEPTIONS REGARDING BUSINESS PLAN
2. FINANCIAL - LOANS, ADDITIONAL EQUITY CAPITAL
3. PROBLEMS WITH PHYSICAL LOCATION
 - LAND AND BUILDING
 - TRANSPORT TO MARKET
4. INVESTMENT CODE INCENTIVES AVAILABLE
5. ADDITIONAL TECHNOLOGICAL REQUIREMENTS
6. ADDITIONAL MANAGEMENT/TRAINING ASSISTANCE DESIRED

ANNEX 9.D

Analysis of Entrepreneurial Surey
New Enterprise Development Project

Total Questionnaires 60

Phase of Development	I	II	III	IV	V	
	3	4	7	3	43	60

Activity of Enterprise

Plastic/Parachemic/Printing	6	
Tourism	1	
Service	5	
Carpentry/Woodworking/Furniture	3	
Agri-business/Food processing	4	
Textile/Weaving	14	
Leather	9	
Mechc/Metalc/Elctc-Electro Ind. (IMME)	15	
Construction/Public Wrks	3	
		60

Size of companies	Small < 5 Mil DH	Medium > 5 Mil DH	
	43	17	60

Dates Started	1970-79	1980-85	1986-89	
	16	29	15	60

% of TME	8 out of 60	13%	
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Number of employees Total in surey 2,453
 Enterp. with employees: 54
 Av.No.of employees: 45.4 per enterprise

Enterprise set-up by entrepreneur 23 out of 58 (2 did not answer)

40 % tried setting up the business on their own
 60 % used a Fiduciary/Notaire for the entire process

Start-up Period (from PHASE I to PHASE III)

Total:139 mo. for 21 enterp's,(46 did precise time lapse)
 Av.start-up:6.62 mo. This includes firms still waiting
 for approval

Administrative/Legal problem to establishing their enterprise

Not a problem or n/a	12	20%	*
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No longer a problem	2	03%
A constraint	23	38%
An obstacle	23	38%

60

* 5 of these used Fiduciaries/Notairs in the process

Auto-financed the operation at its creation or Bank/Credit assist

Auto-financed	43	72%
Some Bank assistance	8	13%
Not yet started or n/a	9	15%

60

Was financing a constraint to getting the enterprise started?

A constraint	41	77%
An obstacle	9	17%
Not a constraint	3	46%
Not applicable/obtained loan	6	
Obtained equipment as loan	1	

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Was the obtention of land/building a major constraint/obstacle?

A constaint	18	30%
An obstacle (had to modify plans)	10	17%
Not an obstacle	29	48%
Not applicable	3	5%

60

Did you take adantage of any Investment Codes?

Yes, applied for advantages	17	29%
Yes, but did not get refunds	6	10%
Does not apply	41	71%
No answer	2	

58

Did you seek/receive any assistance from an organization when you established your enterprise?

No	50	83%
Yes	10	17%

60

Which one? MADI:1, CRS:3, ChCo/SGEM:3, SyndicArtis: 1, Formation Prof:1, Consult.:1

What other constraints did you encounter when you first established your enterprise?

Seed Capital	52
Banker mentality/attitudes	20
Labor Code and its implication	13
Administrative abuses	12
Internal management structure	12
Lack of market info/studies	8
Tax Division/Tax structure	7
Psychological barriers to bus.entry	6
Delays in Bank's releasing finds	4
Administrative delays/hassles	4
Individual Ministries blocking proc.	4

Inadequacies of Judicial recourse 4

Other comments/observations which have little statistical significance

Irregularities of local market
Difficulties with accessing raw material
Unskilled labor force
Difficulties in getting the GOM to pay its bills
Poor reputation of corporate activities

CONSTRAINTS RELATED TO PHASES IV and V (Operation and Consolidation)

In order to expand your enterprise, have you had recourse to a bus. plan?

Yes	7	12%	
No, don't want to/need to	21	35%	
No, it is one of my constraints	3	5%	
No, its an obstacle, I can't manage it	20	33%	
Not applicable/not expanding	9	15%	60

In order to expand I need/would require a medium term loan

It does not apply to me	15	25%	
Getting one is a constraint	20	33%	
Getting one is an obstacle	15	25%	
Not applicable	6	10%	
no answer	2	3%	
Yes, no comments	2	3%	60

Do you require addit'l tech'l equipment/advice in order to expand?

None is needed	22	37%	
Yes, but is a constraint	29	48%	
Yes, but its an obstacle	5	8%	
Not Applicable/no answer	4	7%	60

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NEW ENTERPRISE PROJECT 608-0204

Supplementary Questionnaire

Stratégies/Structures SME

1. Secteur *IMME. 275 Textile 225. cuir 275 270 65 P/c 76 49 56. Tissage*
2. Année de Création *80/86 : 745. 79/70: 265*
3. Employés:

Cadres:	<i>45</i>	<i>25</i>
Agents de Maîtrise:	<i>221</i>	<i>92</i>
Manoeuvre/O.S.	<i>2246</i>	<i>812</i>
4. Ventes:

Local:	<i>84%</i>	<i>[< 10 405</i>
Export:	<i>16%</i>	<i>[1-5] 10 292</i>
		<i>> 50 312</i>
5. Ration de Participation du Travail aux Ventes, (V/T)
6. Niveau d'Instruction du Chef d'Entreprise

- Autodidacte	<i>1/ 49%</i>
- Secondaire	<i>1/ 30%</i>
- Supérieur	<i>1/ 21 2</i>
7. Notion de Gestion:

- Elévé	<i>1/ 7%</i>
- Moyen	<i>1/ 43 2</i>
- Insuffisant	<i>1/ 50%</i>
8. Principales Lacunes de Structure:

<u>PRODUCTION</u> % <i>67</i>	<u>ORGANISATION & GESTION</u> % <i>80</i>	<u>MARCHE</u> % <i>71</i>	<u>FINANCE</u> % <i>50</i>
<i>114</i> Insuffisance d'Equipement	<i>62</i> Sys. d'Info. défaillant	<i>35</i> Problème d'Ecoulement	<i>22</i> Crédit à l'Invest.
<i>78</i> Sous-Capacité	<i>24</i> Méconnaissance du Prix de Revient	<i>61</i> Insuffisance de Marketing	<i>35</i> B.F.R.
<i>21</i> Prob. Compétence	<i>45</i> Faible Taux d'Encadrement	<i>3</i> Autre Crédit	
<i>15</i> Problème d'Espace			

ANNEX 10

LIST OF INTERVIEWS

12/1

ANNEX 10

LIST OF INTERVIEWS

Field Visits by the team members:

I. Ministries:

Ministry of Economic Affairs

Ahmed EL HANAFL
Charge de Mission

Abdul BELIOUT
Charge de l'Investissement

Ministry of Foreign Affairs
Ministère des Affaires Etrangères et de la Coopération

Jaafar CHERKAOUI
Chef de la Division Amérique

Ministry of Plan
Ministère Délégué auprès du Premier Ministre chargé du Plan

Omar EL BAHRAOUI
Directeur du Plan

Hamid CHAQCHAQ
Chef de division de la Planification Industrielle et
Touristique

Ministry of Finance
Directory of the Treasury and External Finance

BEN MONSOUR
SAMIR
EL BARQUE

Office of Foreign Exchange - L'Office des Changes

Omar OLAOUI
Secrétaire General

Ministry of Commerce and Industry

Mustapha EL BAZE
Directeur de Cabinet du Ministre

BCM - BANQUE COMMERCIALE DU MAROC

Mohamed ALAMI
Samira HADBI
Division du Marketing et des Marches de la clientele

BMCE - Banque Marocaine du Commerce Exterior

Abdelkabir BENNANI
Direction des Relations Exterieures

Mamoun BELGHITI
Director Central Adjoint
Department Crédit et Trésorie

BMCI - Banque Marocaine pour le Commerce et l'Industrie

EL MARINI
Charge du Programme Jeune Promoteur

BP - Banque Populaire

Sidi Mohamed AMRANI
Direction Développement Entreprise

Adelhafid TAZI
Director des Engagements Entreprises

Shaikab El ADLOURNI
Directeur - Rabat Branch - Export Credits

CAISSE NATIONALE DU CREDIT AGRICOLE

GHANNAM DRISS
Directeur Financier

CITIBANK

A. BENNANI
Resident Vice President and General Manager

SGMB - Société Générale Marocaine de Banques

Lofti BENKIRANE
Directeur des Etudes Industrielles

WAFABANK

Mustapha ANFAKH LAZRAK
Directeur du Reseau

Azeddine EL HILALI
Manager - Correspondent Banking Division

WAFABAIL - SOPAR
(Société Marocaine de participations)

Saad KETTANI

CFI - Compagnie Financier d'Investissements
30 Ave des FAR

Abderrahman GUERRADOUI
Directeur General

INVESTCO S.A.
30 Ave des FAR

Mustapha FOUAD

IFC - International Finance Corporation
30 Ave des FAR

Sami HADDAD
Regional Representative

III. Public and Private Services Aiding the Start-up of Businesses:

Chambre de Commerce et d'Industrie de la Wilaya du Grand
Casablanca

Brahim EL AMIRI
Directeur General

ODI - Office pour le Développement Industriel

Abdelhamid BELAHASEN
Secrétaire General

Mourad BACHIR EL BOUHALI
Chef du Département - Assistance Technique aux PMI

Peter FISCHER Second visit
Coopération Allemande Promotion des Investissement

Price Waterhouse Accountants

Hampo GHAZAROUSSIAN
Resident Partner

Fiduciare Continentale
24 Rue Nolly - Deuxieme Etage

Abdekhay KETTANI

Expert Comptable Assermente
près des Tribunaux du Maroc

El Houssine ELARARI

CGEM - PATRONAT

Driss LAACHFOUBI

INSEA - Institut National des Statistiques et d'Economie
Appliquee

Mustafa BENYAKLEF
Directeur

Société Immobiliere du Développement Sud Atlasique

M. BERRADA
Président

Corps International de Service des Experts

E. Ross SAWTELLE
Directeur General

. **Small Businesses - Surveys I and II**

Individual entrepreneurs were assured anonymity to assure
factual and unbiased responses.

ANNEX 11

BIBLIOGRAPHY/REFERENCE MATERIALS

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BIBLIOGRAPHY/REFERENCE MATERIALS

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